Austria	Sch[illegible]	Iran	Rls210	Pakistan	Rs35
[illegible]	[illegible]	Israel	Shk4.50	Philippines	Pso40
Belgium	[illegible]	[illegible]	L2200	Poland	Zl 11,000
Cyprus	[illegible]	[illegible]	JD1.20	Portugal	Esc175
Denmark	[illegible]	Korea	Won 2000	Qatar	QR10.00
Egypt	[illegible]	Kuwait	Fils.[illegible]	S.Arabia	SR8.00
Finland	FM[illegible]	Lebanon	LC1,000	Singapore	S$4.10
France	FFr[illegible]	Lux	LFr60	Spain	Pta175
Germany	DM[illegible]	Malta	45 cents	Sweden	SKr13
Greece	Dr200	Morocco	MDh10	Switz	SFr2.70
Hungary	Ft145	Neth	Fl 3.50	Thailand	Bht[illegible]
Iceland	IKr180	Nigeria	Naira15	Tunisia	Din[illegible]
India	Rs20	Norway	NKr13.00	Turkey	L[illegible]
Indonesia	Rp3100	Oman	OR1.20	UAE	Dh8.00

EUROPE'S BUSINESS NEWSPAPER

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CENTRAL ASIA

Russians come home to Tajikistan

Page 2

World News

South Korean premier quits after series of protests

Ro Jai Bong, South Korea's prime minister, resigned after a wave of anti-government protests filled the streets with the largest demonstrations in Korea since the introduction of democracy in 1987. Page 5

Airport talks fail

Latest talks between Britain and China on Hong Kong's plans for a new HK$100bn ($13bn) airport ended without agreement after five days of negotiations. Page 6

Mrs Mandela held

South African police arrested Winnie Mandela and leaders of the African National Congress (ANC) Women's League for obstruction during a demonstration in support of political prisoners. Page 6

300 held in Tunisia

Tunisia government said it had foiled a coup plot by Islamic fundamentalists and arrested 300 people, including 100 military personnel. Page 6

Solidarity strike

Solidarity workers went on strike in industrial regions of Poland as the union held an unprecedented day of protest against the economic policies of the government it steered to power. Page 2

Children released

Indonesian police freed a group of children locked up in a packaging factory for up to three years, according to local newspaper reports.

FBI exports arrest

US federal agents arrested a man accused of violating Washington's ban on military exports to Libya by allegedly shipping night vision goggles without state department approval.

Mid-east accord

Elias Hrawi, Lebanon's president, signed a treaty with Syrian leader Hafez al-Assad as part of the Arab-brokered Taif peace pact to end 16 years of civil war.

Yeltsin wins backing

Russian federation president Boris Yeltsin won formal approval for a powerful executive presidency, a job he is expected to fill after elections next month. Candidates, Page 2

Police accused

South Korean prosecutors accused 11 riot police of savagely assaulting a 22-year-old protester during the funeral of a student who was beaten to death by police last month.

Escobar surrender

Pablo Escobar, Colombia's most-wanted drug lord, has pledged to surrender to authorities within 15 days, a Roman Catholic priest who held talks with him said. Page 6

Delors in Japan

Jacques Delors, president of the European Commission, started his official visit to Japan by expressing concern about the EC's widening trade deficit with Tokyo. Page 4

Standoff in Mexico

Inmates controlled a Mexican border prison as dozens of police and marines waited outside for orders to enter five days after 18 prisoners were killed in a battle between rival drug gangs.

Seven life terms

Seven Moslem fundamentalists were sentenced to life imprisonment for their roles in an attack on the Tunisian ruling party's offices in which an employee was killed.

Iraqis leave Dahuk

Iraq agreed to withdraw its military and police forces from the northern provincial capital Dahuk and allow coalition forces to enter. Up to 150,000 residents, mainly Kurds, may return to their homes.

Business Summary

Volvo and Renault depressed in first quarter

Volvo, the Swedish automotive group, yesterday reported continuing operating losses for the first three months of the year, while Renault of France, its strategic partner announced severely depressed profits.

The grand alliance announced a year ago between the two companies, one of the most ambitious and complex restructuring operations under way in the European auto industry, is taking shape at a time when the financial fortunes of both companies are at a low ebb. Page 15

ELECTROLUX, the world's largest white goods manufacturer, suffered a 19 per cent decline in its profits (after financial items) for the first quarter of the year, with the result falling to SKr414m ($67.6m) compared with SKr511m for the same period of 1990. Page 15

SONY CORPORATION, Japanese electronics maker, lifted annual consolidated pre-tax profits 16.3 per cent to Y264.59bn, on continued strong international demand. Page 18; Bank chief's resignation shakes Tokyo community, Page 14

COFFEE: Second position future prices for robusta closed well down in London. Dealers said selling by funds remained the main force behind the fall. Near July sailed through the recent low of £558 a tonne and then £550, where there were fewer stops than anticipated, until closing just above 10-week lows at £530 a tonne. Page 28

MARKETS: At 1 pm the Dow Jones Industrial Average was down 2.01 at 2,904.07. FAZ index rose 13.39 to 695.18 at midsession and the DAX closed 30.29 higher at 1,647.69. Section II

CURRENCIES: At the London close the dollar had improved to DM1.7215 from DM1.7115; to Y138.00 from Y137.40; to SFr1.4595 from SFr1.4480; and to FFr5.8450 from FFr5.8075. Sterling fell 1 cent to $1.7265. It also eased to Y238.25 from Y238.50, but was unchanged at DM2.9725, while rising to FFr10.0925 from FFr10.0850 and to SFr2.5200 from SFr2.5150. The pound's index lost 0.1 to 91.9. Currencies, Page 36

FIAT of Italy has agreed to cut its stake in one of France's largest car-battery producers from 75 per cent to 10 per cent, in order to win European Commission approval for a merger with the French company Alcatel-Alsthom's battery subsidiary. Page 2

KLM Royal Dutch Airlines, announced a annual provisional net loss of Fl 630m ($325m), compared to the previous year's Fl 340m net profit. Nearly half of the loss was due to a provision taken to help restructure the carrier, reduce its annual operation costs and prune its workforce. Page 15

IFIL, one of the main holding companies of Italy's Agnelli family, raised net group profits by 38.5 per cent to L114.4bn ($90m) last year from L82.6bn in 1989. Page 16

WASHINGTON has told Brussels it intends to lodge, under Gatt procedure, a new complaint over EC subsidies for Airbus, the European Commission said. Page 3

THOMSON Consumer Electronics (TCE), the French state-owned maker of TV sets and audio/video products, has entered a joint venture to make television tubes in Poland. Page 3

FT STATISTICS

We regret that some prices could not be updated for this edition because of a technical fault. The statistical services affected are the World Stock Markets, and Chief Price Changes yesterday for Paris and Frankfurt.

Silence and anger over killing followed by riots and violence

Gandhi's widow to lead party

By David Housego in New Delhi

MRS Sonia Gandhi, the Italian-born widow of Mr Rajiv Gandhi, India's former prime minister, was yesterday elected president of the Congress party in the wake of her husband's assassination on Tuesday.

News of her appointment caused amazement in New Delhi as tha nation reacted with stunned silence and anger to Mr Gandhi's death. Streets remained deserted in many large cities throughout the country, but 10 people were killed in riots and violence that particularly shook the southern states of Tamil Nadu, the scene of his assassination in a bomb attack, and Andhra Pradesh.

Curfewa were imposed in several cities in the north and heavily-armed troops patrolled Delhi in an effort to prevent a repetition of the bloodshed that accompanied Mrs Gandhi's death in 1984.

The Congress leadership, in choosing Mrs Gandhi as president of the party, was seen as attempting to exploit to the maximum sympathy aroused by her husband's assassination. The Hindu revivalist Bharatiya Janata party (BJP), denounced the decision as demonstrating the bankruptcy of the Congress party.

An exit poll carried out in Delhi during voting on Monday, and which was published yesterday, indicated that the BJP was heading for a substantial victory in the capital. Of the 510 seats for parliament being contested in the election, voting for 204 took place on Monday.

The impact of Mr Gandhi's death is seen by the BJP as robbing it of many of the seats it had expected to gain. The Congress is expected to benefit from the type of sympathy vote that gave Mr Rajiv Gandhi a landslide victory in 1984.

Only hours after his death it was announced that the final two days of polling in India's general election would be postponed from Thursday and Sunday to June 12 and 15. The election commissioner decided on this long postponement after discussions with President R. Venkataraman but without consulting the political parties.

The Congress party spokesman said that the party's main policy-making body – which hed earlier in the day been expected to choose an elder statesman of the party as interim president – bad elected Mrs Gandhi unanimously.

Responding to questions about her Italian birth, he said Mrs Gandhi was a party worker and that the party's decision would "be communicated to her in due course." It was unclear how much discussion there had been with Mrs Gandhi who was overwhlemed by grief.

Asked whether she would be groomed as a future prims minister, he said that Congress presidents did not always become prime ministers.

Mr Gandhi's body – badly mutilated by the blast – was taken to Delhi from Madras early in the morning and lies in state in Teen Murti House, the residence of Jawaharlal Nehru, his grandfather. Thousands of mourners filed past his body. He will be given a state funeral on Friday.

There was still no firm indication last night as to who was responsible for the killing of Mr Gandhi. A government spokesman said that no group had claimed responsibility.

An unknown militant Tamil organisation phoned the Bangalore office of a national newspaper and said they had carried out the attack on behalf of Tamils in India and Sri Lanka. Mr Gandhi was seen to have been a target for Tamil extremists after sending the Indian army into Sri Lanka to suppress a Tamil revolt. The Tamil Tigers (LTTE), the main Tamil militant movement in Sri Lanka, denied responsibility for the attack.

Some of the worst violence yesterday occured in Tamil Nadu whare crowds turned against the regional Tamil party, the Dravidia Munnetra Kazaghan (DMK) of Mr K. Karunanidhi, former chief minister. A DMK newspaper office was burnt and at least 40 trucks and buses set ablaze. Tamil property was also attacked in other Indian cities.

In Delhi, angry crowds outside the residence of Mr Gandhi blamed his death on organisations as diverse as the CIA and the Janata Dal party of former Prime Minister V. P. Singh. The ready acceptability of conspiracy theories added to the sense of tension.

Among those due to attend Friday's funeral are Mr Dan Quayle, the US vice-president, Mr Nawaz Sharif, Pakistan's prime minister, and Mr Douglas Hurd, Britain's foreign secretary.

Indian economy frozen in time, Page 4; Nation stretched to breaking point, Page 12; Million grieve, Page 14

Sonia Gandhi yesterday: overwhelmed by grief

Rebels advance on Ethiopian capital

By Julian Ozanne in Addis Ababa

AN EERIE mood of apathy, anxiety and pessimism engulfed Addis Ababa yesterday. Dishevelled, war-weary government soldiers straggled into the capital and municipal workers took down the Soviet-realist posters of former dictator Mengistu Haile Mariam who resigned and fled the country on Tuesday.

"We are happy Mengistu has gone but we fear the future. There is no reason to celebrate," said Mr Tedesse Alem as workers unscrewed a huge metal billboard in Revolution Square which portrayed Mr Mengistu as the leader of a new socialist dawn. "One nightmare is over but we don't know if another is about to begin."

Rebels continued to press towards the capital, overruning government troops falling back in disarray. By nightfall the rebel Ethiopian Democratic Revolutionary People's Front had captured the town of Genet, 25 miles west of Addis Ababa.

The rebels again rejected the new government's offer of a ceasefire, fuelling fears in the capital of a breakdown in law and order as more tired soldiers flee the battle lines. Attempts by the governmant to hold defeated troops back at checkpoints and disarm them is proving successful so far, but some are still trickling through.

Several European embassies, including Britain's, were advising non-embassy nationals to evacuate the capital and were making plans to lay on special charter flights.

Addis Ababa appeared normal on the surface. The regular light flow of traffic worked its way through the drizzle and most shops and offices were open. But there was depression and confusion.

A crowd of about 2,000 gathered around Arat Kilo, a downtown traffic junction, as muncipal workers with a crane removed a 12-foot portrait of Mr Mengistu. But there was none of the excitement, jubilation or cheering that has marked the similar dismantlement of the iconography of east Europe's marxist leaders.

"Nobody trusts anybody. Mengistu has gone but people are still afraid. The security police are still here, the structure of government is the same," said Desta, a student.

Policemen stood guard outside the Menelik Palace, Mr Mengistu's former residence, and in front of a 30-foot bronze statue of Lenin in the capital.

At the mercato, a huge market, clumps of ragged soldiers from the front stood around aimlessly with their automatic rifles wrapped in bandoliers of bullets swung over their shoulders.

"I am very disturbed that the fighting will come to Addis. I am very much afraid," said Miss Almaz Tegegne, a shop assistant.

There was concern among western diplomats for the members of Mr Mengistu's Marxist party and the many agents of his oppressive 14-year rule.

"There are deep-seated, pent-up feelings against the bad people and a desire for retribution. If public order collapses there will be a lot bloodshed," said one western observer.

Acting President Tesfaye Gibre-Kidan met individually the five ambassadors who have permanent seats on the United Nations Security Council to

Continued on Page 14

Cresson advocates EC-wide industrial policy

By Ian Davidson in Paris

THE PROMOTION of a European-wide industrial policy will be one of the first priorities of the French government, Mrs Edith Cresson, the new prime minister, announced yesterday.

She told the National Assembly that she would pursue that aim with the European Community and with European industrialists, "with whom I have had close relations for many years".

Mrs Cresson did not spell out what initiatives she would be taking in this direction, nor what a European industrial policy would comprise, although she appeared to rule out any recourse to protectionism.

But she identified two key sectors, cars and electronics, as being in need of a European industrial policy.

"Europe cannot be just a large market", she said. "The Europeans cannot depend on the outside world for certain products which are essential for their technological future or their defence.

"An urgent effort is needed to ensure a common future in key sectors like cars and electronics: let us be bold and inventive ... Forty years ago the founding fathers created a European Coal and Steel Community; today it is a true Electronics Community that we need".

Mrs Cresson has long had the reputation of a would-be interventionist in industrial affairs. It is not clear, however, that she will have as much freedom for launching an interventionist European industrial policy. In her new government, industrial policy comes under the overall authority of Mr Pierre Bérégovoy, the finance minister, whose instincts are resolutely liberal.

Mrs Cresson's promise of a European industrial policy initiative was the main novelty in an extended declaration to parliament of the policies of her new government, which was formed last week.

But she also promised that France would take a tough line in defence of French agriculture in the international trade negotiations in GATT. "We want to maintain a competitive agriculture which will keep, or even increase, its market share in the Community and in world markets."

On the fundamental issues of macro-economic policy, Mrs

Continued on Page 14

Gorbachev optimistic about his chances of attending G7 talks

By Leyla Boulton in Moscow, Peter Riddell in Chicago and agencies

SOVIET President Mikhail Gorbachev yesterday expressed optimism about his chances of being invited to the Group of Seven summit in London in July and said that his government's economic reform plans needed to be more radical.

Mr Gorbachev appeared to be voicing support for efforts by Mr Grigory Yavlinsky, the Soviet economist, to work out a new economic and political reform package based on co-operation with the west.

Tha Soviet leader's comments came as Mr James Baker, US secretary of state, told a congressional hearing in Washington that the US should consider giving aid to the Soviet Union on certain economic and political conditions.

Mr Baker said he continued to strongly support a long-standing US policy that economic assistance should be made conditional where possible on free market reforms.

He added that a programme of aid would have to be linked to political issues such as containing the Soviet Union's military capability. "I don't think that we're at the point that we can look at this solely as an economic issue... We also hava to look at some issues on tha political side," he said.

Mr Michel Camdessus, managing director of the International Monetary Fund, said in Chicago that the Fund stood ready to move rapidly in providing technical assistance for economic reform in the Soviet Union once Moscow and leading western industrial countries had reached agreement on how this might be done.

He said that what was needed was soma agreement hatween the G7 industrial countries and the Soviet Union on a formula for providing help. The IMF would then be "delighted to be of assistance. We are used to moving rapidly. There are no institutional barriers to providing technical assistance. It will not take more than a day," he said.

Mr Camdessus stressed the importance of a union treaty between Moscow and the republics if the Soviet Union was ever going to be able to put together a proper reform programme.

Mr Gorbachev said he wanted to attend the G7 summit to hear western leaders' "suggestions on how we should best co-operate in order to consolidate a positive tempo which is gaining strength and which we should preserve."

Without mentioning Mr Yavlinsky, who is currently in the US to work out a joint approach to Soviet reform with US economists, Mr Gorbachev echoed many of his ideas for a new political consensus accompanied by radical market reforms.

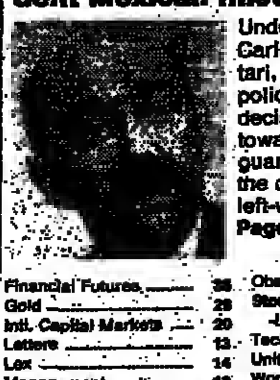
But he also repeated earlier warnings, aimed at salvaging Soviet pride, that other countries should not expect to "impose models" on the Soviet Union.

The Soviet president also expressed confidence that difficulties with Washington over arms control would be ironed out during the current visit to Washington by General Mikhail Moiseyev, the Soviet chief of staff.

Russians come home to Tajikistan, Page 2

CONTENTS

US trade pact unlikely to dent Mexican mistrust



Under President Carlos Salinas de Gortari, Mexican foreign policy is undergoing a decisive change towards a stance guaranteed to enrage the country's powerful left-wing

Page 6

MARKETS

STERLING
New York lunchtime:
$1.7275
London:
$1.7265 (1.7365)
DM2.9725 (2.9725)
FFr10.0925 (10.085)
SFr2.52 (2.515)
Y238.3 (238.5)
£ Index 91.9 (92)

GOLD
New York: Comex Jun
$356.8 (357.9)
London:
$356.3 (356.5)

N SEA OIL (Argus)
Brent Jul
$19.175 (19.725)

Chief price changes yesterday: Page 15

DOLLAR
New York lunchtime:
DM1.722
FFr5.845
SFr1.4602
Y138.0
London:
DM1.7215 (1.7115)
FFr5.845 (5.8075)
SFr1.4595 (1.448)
Y138.0 (137.4)
$ index 66.1 (65.8)
Tokyo close: Y137.45

US lunchtime rates
Fed Funds $5\frac{11}{16}$%
3-mo Treasury Bills:
yield: 5.61%
Long Bond:
$99\frac{7}{16}$
yield: 8.26%

STOCK INDICES
FT-SE 100:
2465.9 (−16.8)
FT Ordinary:
1933.4 (−9.1)
FT-A All-Share:
1,191.99 (−0.6%)
New York lunchtime:
DJ Ind. Av.
2,904.96 (−1.12)
S&P Comp
375.56 (+0.21)
Tokyo: Nikkei
25,396.66 (−82.55)

LONDON MONEY
3-month interbank close:
$11\frac{1}{2}$% ($11\frac{7}{16}$-$11\frac{17}{32}$)
Liffe long gilt future:
Jun $90\frac{11}{32}$ (same)

Union protests against monetary policies

Solidarity takes to streets in show of national rage

By Christopher Bobinski in Warsaw

FLAGS flapped and banners strained against the breeze as the Solidarity trade union took to the streets of Warsaw yesterday for the first time since the fall of the Communists, to protest against the government's stringent monetary policies.

"We come into work everyday and we don't know if we'll be needed," said one employee of the FSO car factory in the crowd of about 10,000 union members.

Another complained about low pay. "I have a basic monthly wage of Zl 1.2m after 18 years at the plant and my rent is Zl 400,000 a month," he said.

All agreed the Government was squeezing the state sector with taxes while private companies – "more often than not owned hy former communists" – were not paying enough. "We're the ones who are providing the budget income" said another.

The Solidarity crowd later marched under a blue eunlit sky to hand in petitione against wage controls at the main government building and parliament.

Elsewhere in the country the union staged short stoppages, notably in the coal mines and in factories in the south west, while in Gdansk, the movement contented itself with hanging out flags and sounding alarm sirens at midday.

Solidarity wants pledges that wage controls in the state sector will be gradually removed, a clear government statement on the future of industry and farming and the removal of former communists from the administration.

Privatisation policies are also coming under fire for favonring thoee who are already rich.

A spokesman at Solidarity beadquarters in Gdansk said the union was "satisfied with the response which showed that the union could mobilise its members".

More importantly, the protest has given people the signal that the government's stringent monetary policies, agreed with the International Monetary Fund, could now legitimately be criticised.

The Warsaw crowd heard the burly local Solidarity leader, Mr Maciej Jankowski, demand that the government outline clear policies for Polish industry, which he said was going into terminal decline.

"If industry collapses and our best engineers and academics emigrate then we'll sink to fourth world status like Bangladesh without any hope," he thundered.

"We don't want to overthrow the present government but we want all our parties to make their position clear: do they want a country run by a rich oligarchy and the rest mere masses without any hope for the future, which is the way things are going now?"

More would have come to listen and march if not for a bus strike in Warsaw, now in its second day, where drivers are demanding a 50 per cent pay increase. The drivers held talks with city anthorities hnt rejected a pay offer as too low.

Fulfilment of the demands would mean that half the city authority's budget would go on puhlic transport, said the mayor, Mr Stanislaw Wyganowski.

However, rubbish disposal workers ended a week-long stoppage yesterday after being promised Zl 500,000 a month more on top of the Zl 1.8m they now earn.

STRIKE: workers in Minsk protest outside the Byelorussian supreme council

Brussels adopts draft measures on advertising

By Andrew Hill in Brussels

ADVERTISERS may have to support claims that one washing powder "washes whiter" than another with scientific proof, if draft measures adopted yesterday by the European Commission are to become law.

The Commission wants to regulate comparative advertising campaigns by adding new clauses to a 1984 directive which controls misleading publicity. It hopes the measure will be adopted by member states before the beginning of 1993.

The draft clauses would allow advertisers to compare the essential features of products or services, but such comparisons would have to be objective and supported by scientific proof.

Brussels also wants to outlaw the sort of aggressive campaigns common in the US, where hoardings and television commercials are frequently a forum for accusations and counter-accusations about competing products.

Publicity which "denigrated" rivals would be banned under the draft proposals, as would advertisements which led to confusion between competing brand-names, products and services.

Mr Karel Van Miert, the commissioner for consumer protection, said the aim was to improve information for consumers, stimulate competition and harmonise EC regulation of comparative advertising.

He said he hoped the industry would itself produce a code of conduct on comparative advertising, which accounts for only 2 per cent of advertising expenditure in the EC.

Existing EC legislation in this area is confused. Only four countries – Spain, Ireland, Portugal and the UK – have laws expressly authorising comparative advertising and France is bringing in a similar measure.

Other member states are subject to a range of overlapping rules and case law; in some countries these outlaw the mention of a rival company's name or the use of trade-marks without permission.

● The Commission will this week send letters of notice to 10 member states as the first formal step towards legal action aimed at ending cross-border monopolies in electricity.

The Commission warned the countries two months ago it wanted to dismantle national energy monopolies.

If it now emerges that they do not conform with the Rome treaty, Brussels will send "reasoned opinions" to the relevant member states and can eventually take them to the European Court of Justice.

Parliament opens way for presidential poll

By Leyla Boulton in Moscow

THE Russian parliament yesterday cleared a big obstacle to the holding of presidential elections next month, when it approved a law defining the powers of the future president.

The first directly-elected president in Russian history will have the power to appoint and sack ministers, issne decrees and sign international pacts. He will also have responsibility for guaranteeing the national security of the largest Soviet republic. The president's powers to a certain extent mirror those of the Soviet president, Mr Mikhail Gorbachev, but an earlier plan to make the Russian leader commander-in-chief was dropped.

While Mr Boris Yeltsin, the popular chairman of the Russian parliament, is almost certain to win, he faces a serious challenge from Mr Nikolai Ryzhkov, the former Soviet prime minister who bas become the standard-bearer of Communist party conservatives. The congress is dne today to clear amendments to the constitution, enabling the presidential law to take effect.

Candidates lack flamboyance

By Our Moscow Correspondent

LACKING the flamboyance characterising US-style presidential elections, the six candidates for the first-ever Russian presidency are however undergoing a crash course on popular politicking.

With the race officially open since Monday, nobody has yet kissed any babies. But the slogans and promises have begun rolling in, with a few hiccups.

Mr Boris Yeltsin, for one, was having trouble calling things hy their name. Relinquishing the floor at yesterday's Russian congress to General Albert Makashov, his neo-Stalinist opponent, he almost called him a pretender rather than a candidate.

Gen Makasbov, cutting an uncharismatic figure despite his uniform, said he offered "constitutional order which would force everybody to work and not engage in speculative activity". His pledge to "sovietize" the economy and stop capitalists huying up the country was drowned in laughter.

He pledged to restore Russian patriotism, saying generals had made good presidents in the US, South Korea and Taiwan. Mr Vadim Bakatin, the former interior minister who still advises President Mikhail Gorbachev, said his credo was "common sense". He warned voters "not to expect any sensations" from him.

Mr Bakatin, who disclosed he had rejected an offer to become Mr Yeltsin's running-mate, acknowledged some confusion existed over whose vote he was trying to attract. "I am relying on the majority of Russians who work, etand in queues, and worry about the future of Russia," he said.

Mr Vladimir Zhirinovsky, head of the Liberal Democratic Party, made the most inauspicious start of all. Congress deputies' assessment of his inaugural speech ranged from "a circus act" to "a shameful comedy".

Ukraine calls for elections

THE PARLIAMENT of the Ukraine, the second largest Soviet repnblic, yesterday approved a draft constitution for an independent republic and called for direct presidential elections, Chrystia Freeland writes from Kiev.

The constitution is not likely to become law before the end of the year however. This means that neither the Ukrainian parliament nor its president, Mr Leonid Kravchuk, is empowered to sign the proposed Unlon Treaty between the central government and other repnblics before then.

The draft constitutional law, approved by 231 ont of the total 450 deputies, reflects the increasingly radical mood in the Ukraine and endorses private ownership.

Portugal trade balance worsens

PORTUGAL'S trade balance worsened in the first quarter of this year, the deficit rising 25 per cent over the same period in 1990, to reach Esc317.5bn ($2bn), writes Patrick Blum in Lisbon. Export growth slowed, up 1.3 per cent to Esc578.9bn, against Esc571.3bn in the first quarter of 1990, the National Statistics Institute said. In March, exports fell 9.4 per cent. Imports rose 8.6 per cent to Esc 896.4bn, against Esc 825.2bn a year earlier.

UK-Albanian ties

Britain said yesterday that it had agreed in principle to restore diplomatic relations with Albania after Tirana dropped all conditions, writes Our Foreign Staff.

The ties were severed more than 50 years ago.

Fiat cuts stake to win EC merger approval

By Andrew Hill in Brussels

FIAT of Italy has agreed to cut its stake in one of France's largest car-battery producers from 75 per cent to 10 per cent, in order to win European Commission approval for a merger with the battery subsidiary of the French company, Alcatel-Alsthom.

The bargain completes the second in-depth inquiry by the Commission into last October'e link-up between Alcatel-Alsthom and Fiat. It may have implications for the outcome of another Brussels investigation, into the proposed car battery merger between the German companies Robert Bosch and Varta.

EC competition officials also see the deal as a small victory over those within the Commission who had argued for unconditional approval of the deal on the grounds that it would create a strong "Eurochampion" in the world market for replacement batteries.

Sir Leon Brittan, the competition commissioner, suggested Fiat should sell a large part of its stake in Compagnie Française d'Electrochimie (CFEC) a month ego and won Fiat'e agreement within the last few days.

Fiat has also agreed to limit its membership of CFEC's board to one person.

Brussels was worried that a merger between Magneti-Marelli, the Fiat subsidiary, and Alcatel-Alsthom's Compagnie Européenne d'Accnmulateurs (CEAc), would create a dominant position in the French market for replacement car batteries.

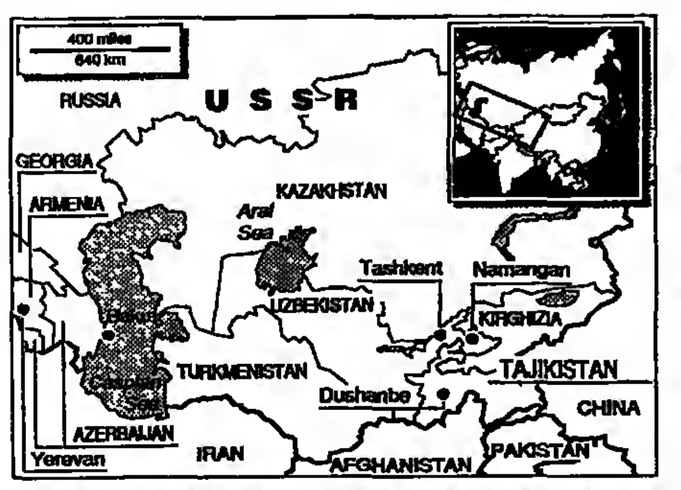
Sir Leon will now recommend approval of the deal when the Commission meets next Wednesday – the last day of the four-month period laid down for full Commission merger inquiries.

Russians come home to Tajikistan

Jo Carley finds that life in Central Asia is preferable despite the nationalist threat

WHEN Lyuda Borova, a Russian physics teacher, stepped off the aircraft onto Soviet Tajik soil this month, she considered herself to be striking a small blow against the rising tide of nationalism. For she decided to return just four months after leaving Tajikistan, supposedly for good, driven out like thousands of other Russian residents by mounting fears of an impending anti-Russian backlash in Central Asia.

"Even though I'm Russian, Central Asia is still my home, in spite of all this nationalism," she said defiantly, as she sat among packing cases. She had found, to ber horror, that life had actually been harder in the Russian town where she had moved than in her home city of Dushanbe, the capital of Tajikistan.



The return of Mrs Borova and other Russians does little to reverse the tide of those who have left Tajikistan in the last two years – recent figures suggest that 50,000 Russians have left or wish to leave the republic, where they make up about 7 per cent of the total population – but it does, however, mark a recent change in the ettitudes there.

During the last two years the steady rise of nationalism has left the Russian community in Central Asia feeling increasingly threatened. The decision of the Central Asian republics to turn their indigenous languages into the official state language, for example, has been regarded as a significant blow, since less than 25 per cent of the Russians in Central Asia speak them.

Events like the brutal lynching of six Russian soldiers last year in the Uzbek town of Namangan, or the anti-Russian attacks dnring riots in Dushanbe 18 months ago, have fuelled Russian fears that a future backlash could be considerably more violent than anything seen so far in the Baltic republics. More than half the Russians polled in Tajikistan earlier this year, for example, said they would be prepared to set up self defence militias in the face of rising nationalism. In practice though, attempts to set up groups protecting Russian language interests in the republic have been declared illegal.

Nevertheless, although the fears remain, it seems that the threat of imminent unemployment in Russia, coupled with the prohlems of finding increasingly scarce housing in Russian cities, means many Russians are staying put. For the first time in recent months, the number of Russians leaving the republic has actually fallen, according to unofficial government estimates.

The republic'e government and opposition parties are keen to fan this confidence – the opposition Democratic Party, for exemple, recently appointed a Russian as its vice leader – not least because the republic can ill afford to lose the technical and scientific specialists who have, to date, been overwhelmingly Rnssian. Indeed, the exodus has already caused eerious shortages in medical and engineering professions, adding to the republic's mounting economic problems.

But the results of the Soviet-wide referendum in March, which seemed to show that the Tajiks were overwhelmingly in support of the Union (although there were suspicions of ballot-rigging), does appear to be giving greater confidence to the Russians.

As Alya Vaslieva, a Russian language specialist said: "As long as Tajikistan remains within the Union, we think we have a future here. But if it became independent, we'd be terrified that an Islamic state might develop."

HDTV groups receive Ecu85m in state aid

By Our Foreign Staff

Brussels has approved more than Ecu85m ($100m) of French and Italian state aid to electronics groups involved in the development of high-definition television (HDTV), including subsidiaries of the French company Thomson, Philips of the Netherlands, and Finland'e Nokia.

The aid, which takes the form of grants and loans, was waved through by the European Commission on the grounds that HDTV is part of the EC Eureka research programme and "an important project of common European interest".

Such projects are exempt from the usual restrictions on state aid.

The Commission is still hoping to submit its proposals on future HDTV strategy to telecommunications ministers on June 3, although Tuesday'e meeting of broadcasters, satellite operators and electronics groups broke up without reaching a compromise on the memorandum of understanding which will form one half of the strategy.

Meanwhile, Brnssels announced yesterday it has started an investigation into Dutch state aid for the recycling of pig manure.

The aid, a parafiscal levy worth Ecu26m ($31m) for the transportation and storage of the manure, is intended to reduce pollution.

Though the Commission says it fully understands the environmental objectives of the Dutch government, it has "accepted several Dutch aid schemes in that sector" and considers further injections of quasi-government resources may constitute illegal state aid.

Bonn favours broader role for troops in UN

By David Goodhart in Bonn

THE German Social Democrats (SPD) look set to agree to a broader role for German troops in the service of the United Nations if the UN can reform and clarify its rules on military intervention.

Chancellor Helmnt Kohl is strongly in favour of reforming the German constitution to allow German troops to operate outside the NATO area, especially after Germany's modest role in the Gulf War. However, the SPD and the Liberal Free Democrats have both been more cautious.

The issue had threatened to divide the SPD's party congress at the end of this month but Mr Willy Brandt has now come up with a formula which favours immediate German participation in UN "blne beret" peace keeping operations, but makes wider German participation in UN-sponsored actions dependent upon reform of the UN's military role. Mr Bjorn Engholm, the SPD chairman-elect, favours this compromise.

The SPD's view on the matter is important because a two-thirds majority in the Bundestag (parliament) is required to change the constitution. The Free Democrats have agreed to participation in blue beret operations and any action supported by the UN security council.

● The Bonn Economics Ministry said yesterday that it expected first quarter GNP growth in 1991 for west Germany to be between 3 and 4 per cent.

Belgian strike averted

By David Buchan in Brussele

THE Belgian government has averted a planned etrike on Friday by agreeing to pay the country's 800,000 public sector workers 6 per cent above the prevailing inflation rate over the next three years.

The deal contains the first revision since 1972 of the differentials between different grades of civil servants, in an attempt to remotivate a public sector that feels it has borne the brunt of austerity for the past 10 years under the prime minister, Mr Wilfried Martens. The government claims the extra charge on the national, as distinct from regional, budget will only amount to BFrs14bn ($390m) a year.

But private economists fear, nonetheless, that the pay settlement risks breaking the Martens government's self-imposed rule against year-on-year increases in the budget deficit, not just in real terms, but nominal terms as well.

The five parties in the ruling coalition are already beginning to jockey for position in advance of elections, which must be held by next January.

● Abont 20,000 off-dnty policemsn demonstrated through Paris yesterday to demand higher pay and better working conditions, Renter reports from Paris.

The policemen, mostly rank-and-file patrolmen from cities around France, marched in two eeparate processions under blne, white and red balloons. They belonged to two rival nnions representing many of the 120,000 policemen employed by the French Interior Ministry.

The marchers wore street clothes because of a law which prohibits them from demonstrating in uniform.

Yugoslavia seeks $4.5bn to help its economic reforms

By Judy Dempsey

YUGOSLAVIA'S federal government is seeking $4.5bn (£2.6bn) from international financial institutions in order to implement its economic reform programme and bolster its anthority in the face of secessionist moves by some of the republics.

Mr Budimir Loncar, the federal foreign minister, told a group of army officers earlier this week that "for the continuation of the economic reforms this year we need $4.5bn. But much depends on the negotiations with the International Monetary Fund."

The implementation of reforms continues to be undermined by ethnic unrest, deadlock among the six republics and two provincee over choosing Mr Stipe Mesic, a Croat, as president, and considerable opposition by some of the republics to reforming their economies.

Yugoslavia has been without a federal president and head of the armed forces for more than a week following opposition by the communist republics of Serbia and Montenegro, and the provinces of Kosovo and Vojvodina, to appointing a non-communist president.

Despite the instability, the federal government remains hopeful that it will obtain financial assistance, and will be able to negotiate a rescheduling of part of its debt owed to the Paris Club of creditor governments. Last month, Mr Ante Markovic, the federal prime minister, told parliament that the Paris Club had indicated its willingness to reconsider Yugoslavia'e request for a rescheduling of its $640m outstanding debt.

Yugoslavia'e external debt totalled $16.3bn in 1990 and its reserves amounted to $8.9bn.

> It is expected to lose $2bn in tourist receipts because of unrest

The debt accounted for 27.6 per cent of GDP (which last year totalled $58.9bn), compared with Hungary's 62.2 per cent and Poland's 74.3 per cent.

The government is faced with a deteriorating economic outlook. The balance of payments deficit is expected to reach $1.5bn this year, after a $1.1bn deficit last year.

GDP is likely to decline further this year after a fall of 3 per cent last year. Industrial output fell by 20 per cent last year and nearly 18 per cent in the first quarter of 1991 due to a decrease in capital investments, as well as continued overmanning and subsidies.

In addition, Yugoslavia is expected to lose at least $2bn in tourist receipts because of threats of a military coup and ethnic unrest and violence in Serbia and Croatia, the country's two largest republics.

Financing from international financial institutions could enable the federal government to speed up the pace of privatisation and the costly reform of the fiscal and banking system.

Mr Markovic has said that the percentage of non-performing bank loans is estimated to be as high as 60 per cent, or $10bn. This is because enterprises, which have had the right to establish their own banks, frequently obtained soft credits. The governments in several of the republics have been reluctant to break the link between enterprises and banks because many enterprises could face closure.

A recent study by the World Bank stated that one third of all enterprises "are reportedly illiquid ... but there have been no closures to date."

This resistance explains why the federal parliament has still not adopted a draft law on the reform of the National Bank of Yugoslavia and the financial operations of the national banks of the republics and provinces.

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WORLD TRADE NEWS

Change business practices, US warns Japanese

By Robert Thomson in Tokyo

The US yesterday warned corporate Japan that changes must be made to practices which allegedly prohibit fair competition, and hinted business opportunities in the US could be limited unless the changes come soon.

The trade debate between Washington and Tokyo is increasingly focused on the behaviour of Japanese companies, as US officials yesterday signalled they were generally pleased with policy changes made by Tokyo over the past year.

Negotiators from the two countries yesterday finished a review of the first year of reforms under the Structural Impediments Initiative (SII), designed to remove obstacles to trade and cut Japan's huge *bilateral* trade surplus.

While US officials said Japan had partly abided by promises to increase public infrastructure investment and deregulate the country's complex distribution system, they cited several problems they claimed were directly related to the behaviour of Japanese companies.

US representatives suggested that corporate Japan was obstructing the strengthening of anti-monopoly legislation and opposed attempts to make transparent the activities of the *keiretsu* – corporate families – characterised by cross-shareholdings and close business relationships.

Mr Charles Dallara, an assistant US treasury secretary, said many countries were becoming increasingly disturbed by the corporate families, as there is "a growing body of evidence that suggests *keiretsu* do tend" to exclude foreign and other Japanese firms from business dealings.

"Change will require a greater commitment at the higher levels of government and a recognition by those (company) members that it is in their interests to open this system up," Mr Dallara said. He suggested that if changes are not made, Japanese companies could find their foreign investment opportunities "severely undermined".

Japanese officials had an opportunity at the review session to press the US for economic policy changes that would reduce the trade deficit by making the country more competitive. Tokyo released a report calling on Washington to "make further progress" in personal savings and investment patterns, and in encouraging US companies to invest more in research and development. Tokyo also wants a continuing fall in the US budget deficit.

EC pressed on Airbus subsidies

WASHINGTON has told Brussels it intends to lodge, under Gatt procedure, a new complaint over EC government subsidies for Airbus, the European Commission said yesterday, Paul Betts writes.

Brussels called the US decision "incomprehensible and counter-productive". Any new US action against Airbus could not but have e "negative impact" on the multilateral trade talks.

The US has so far not filed a formal request in Gatt against Airbus subsidies, but US and US aerospace officials have indicated the row is reaching a head.

The US has already taken Airbus before the Gatt subsidies committee over Bonn's exchange rate support for Daimler-Benz, the German partner in Airbus. The US now plans to file a second, broader complaint against direct subsidies to help develop new Airbus programmes.

Washington has become frustrated by lack of progress in efforts to win a compromise on commercial aircraft subsidies with the EC.

The latest talks failed last February with the US seeking a 25 per cent limit on government launch aid for new aircraft programmes instead of the 45 per cent proposed by the EC.

Fares row blocks Caribbean air pact

Barbados objects to aspects of a draft accord, **Canute James** writes

A ROW over the setting of fares on lncrative London to Caribbean rontes is preventing conclusion of an air services agreement between Britain and six countries in the eastern Caribbean.

The quarrel has led to charges that the British government is trying to give British Airways an edge over Caribbean carriers, and to warnings that the region's important tourist market in Britain and other European countries is at risk. While most Caribbean states accept the terms of an accord with Britain, Barbados says it needs to have a role in setting fares for routes between London and the region.

The row, which has intensified since inconclusive negotiations eight weeks ago, is complicated by claims by some Caribbean countries that the UK is making an effort to limit access to British airports of BWIA of Trinidad, in favour of British Airways.

Mr Philip Greaves, Barbados' air transport minister, suggested the Caribbean should not snter agreements which could threaten the region's tourist industry, its most important source of foreign currency. Barbados has objected to aspects of the draft agreement, arguing that air transport for tourists from an increasingly vital European market was too important to be left unprotected.

Saying it cannot accept total deregulation of air fares, Barbados is suggesting a compromise allowing airlines to fix fares to an agreed ceiling beyond which government approval would be needed. Barbadian officials say this is necessary to maintain competitiveness for the island's tourist industry.

This has angered Mr John Compton, prime minister of St Lucia. "Barbados has taken a position which, unless resolved, can result in curtailment of BWIA services between St Lucia and our tourist industry," he says. The tourist industry in islands such as St Lucia, Dominica, Grenada and St Vincent depends on BWIA services.

The UK had earlier refused to entertain a request from BWIA, owned by the Trinidad and Tobago government, to continne a second St Lucia-London flight it had added for the winter season. A British diplomat said then: "The application has been extended to end-May. A further extension will depend on the multilateral air agreement being worked out between Britain and the Caricom countries." While the other countries have favoured the pact with the UK, and are concerned at Barbados' attitude, some regional officials

The quarrel has led to charges that the British government is trying to give British Airways an edge over Caribbean carriers

have said privstely they "understand" why that island's administration has taken such a trenchant position.

One Barbadian official said there was support for the administration's position from the region's tourist industry. In March, the Caribbean Tourism Organisation (CTO) concluded the region was faced with an "airline oligopoly" in the form of British Airways and American Airlines. "From the point of view of the region and the destinations within," the CTO said, "one big issue arising is the reduced availability of discount fares and/or the level of discounts to the region resulting from fewer airlines controlling more share."

Two aspects of the proposed agreement have worried the Barbadians. While it allows Caricom countries to designate s single carrier to the UK, it does not limit the number of airlines the UK can designate to the region. "This is unique in aviation history," said Mr Ian Arcber, a former permanent secretary for civil aviation in Barbados, and now an airline industry consultant. Such agreements usually gave equal rights to the signatories.

The other point the Barbadians find unacceptable is the suggestion that the Caricom countries involved would give up their Air Transport Licensing Authority rights in exchange for granting BWIA increased flights. These rights allow some influence on the number of flights and carriers on a route. Conceding this, say regional officials, could mean the Caribbean would be unable to designate a carrier for any route British Airways decides is not worth plying.

All the countries in the controversy are after the same thing: guaranteeing that their tourist industry, and especially the UK and European market, is not affected by a shortage of airline seats. The CTO says many European tourists visiting the Caribbean go through London. Total scheduled passenger traffic between the UK and eastern Caribbean resorts was estimated by the CTO at 341,000 in 1988. "The two scheduled carriers serving this route are British Airways and BWIA International," the CTO said. "BWIA's share is estimated to have decreased from 31 per cent in 1985 to 27 per cent in 1988."

French join Poles for TV venture

THOMSON Consnmer Electronics (TCE), the French state-owned maker of TV sets and audio/video products, has entered a joint venture to make television tnbes in Polsnd, William Dawkins reports from Paris.

The group's Videocolour TV tube subsidiary has taken a 51 per cent stake in a new company with Polkolor, a state-controlled Polish television maker, and plans to invest FFr200m (£19.8m) modernising its partner's Warsaw plant over the next three years. This is one of the first French participations in Poland's privatisation programme, in which the Warsaw aims to find private investors for 8,000 state enterprises.

Mr Janusz Lawandowski, Polish privatisation minister, wants 60 such deals this year. This follows the recent acquisition by Philips, the Dutch electronic company, of Poland's largest lighting producer, and the takeover of Fampa, the pnlp and paper group, by Beloit of the US.

Polkolor, founded in the mid-1970s, makes 700,000 tubes annually under licence from RCA, Thomson's US brand, but has s capacity of 2m tubes a year. The new group, Thomson-Polkolor, will make small and medium-sized tubes.

Washington in gear for fast-track vote

By Nancy Dunne in Washington

THE Washington lobbying circuit this week is in high gear for the approaching vote on President Bush's request for a two-year extension of his "fast track" negotiating authority for the Uruguay Round and the North American Fres Trade Agreement (Nafta).

While the Hispanic Americans for US-Mexico Free Trade were holding a press conference yesterday to demonstrate their suppori, Mr Ralph Nader's Public Citizen organisation was delivering glass jars labelled "Danger! DDT!" to every House office. The jars were attached to circulars which declared that the extension could allow fruit and vegetables to be "slathered with the deadly stuff".

To the uninitiated, Public Citizen explained: "Fast track means having only 60 days to consider thousands of pages of enabling legislation that will change broad stretches of US law. Then, after limited debate, the only vote allowed is 'yes' or 'no'. Stop fast track, and make sure future trade agreements are good for all Americans."

Congressman Richard Gephardt, Houss majority Leader, has been the focus of much of the anti-fast track activity. Since he agreed to support the extension, albeit with conditions, protesting constituents have been mailing him old campaign buttons and bumper sticks. A Gephardt staff member, meeting a delegation of farmers, was handed a picture autographed by the congressman for a former supporter who had asked that it be returned.

"Ws feel completely betrayed by him," said Ms Susan Denzer of the Family Farm Coalition. The group pressed the staffer to get Mr Gephardt to insist on new conditions easing the US free trade stand in the farm negotiations under the aegis of the General Agreement on Tariffs and Trade (Gatt).

Although Senate head counters feel confident the extension will he approved, one aide acknowledged he had only 40 or so committed, out of the 51 needed, in support of President Bush. Many of the officially "undecided" are hoping the President will have enough support so they can vote against the fast-track to satisfy their labour and environmentalist constituents.

In the House, there were demands for close scrutiny of the Nafta talks and high-level negotiations about what type of demands to place on the administration for consultations before a final agreement comes to a vote.

Mrs Carla Hills, US trade representative (USTR), is seeking an "unencumbered fast track." Proposals to allow amendments to a final agreement in a limited number of areas, such as environment and labour issues, would leave her "fairly lonely", she said on Monday, because no one would negotiate with her.

"Congress cannot negotiate a trads agreement," she declared. "They created USTR to be responsive to the Congress, to negotiate, and to shackle us, to make us less effective simply destroys a partnership that has worked extremely well for the past 50 years."

Mr Mark Anderson, ths leader of the labour forces, believes the more conditions on the negotiators, the better. "It chips away at this sort of executive branch power grab," he said. No matter how the fast track vote goes, it has been made clear to the administration that it will have to address concerns of labour and environment to get Nafta approved, Mr Anderson insisted.

Finns, Portuguese in petrol components deal

By Enrique Tessieri in Helsinki

NESTE, ths Finnish state-owned oil and chemicals group, and Petrogal, the Portuguese oil company, have formed Octaco – Companhia Portuguesa de Octanas – a joint venture which will prodnce methyl-tetra-butylene-ether (MTBE) and alkylate, both seen as environmentally friendly high-octane petrol components.

Neste and Petrogal will have a 65 and 35 per cent stake in the new company respectively.

The two groups will invest \$100m (£59m) in building a 50,000-tonne-a-year MTBE facility, as well as an alkylate plant which will have an annual production capacity of 200,000 tonnes. The joint venture is based in Sines, about 100km south of Lisbon.

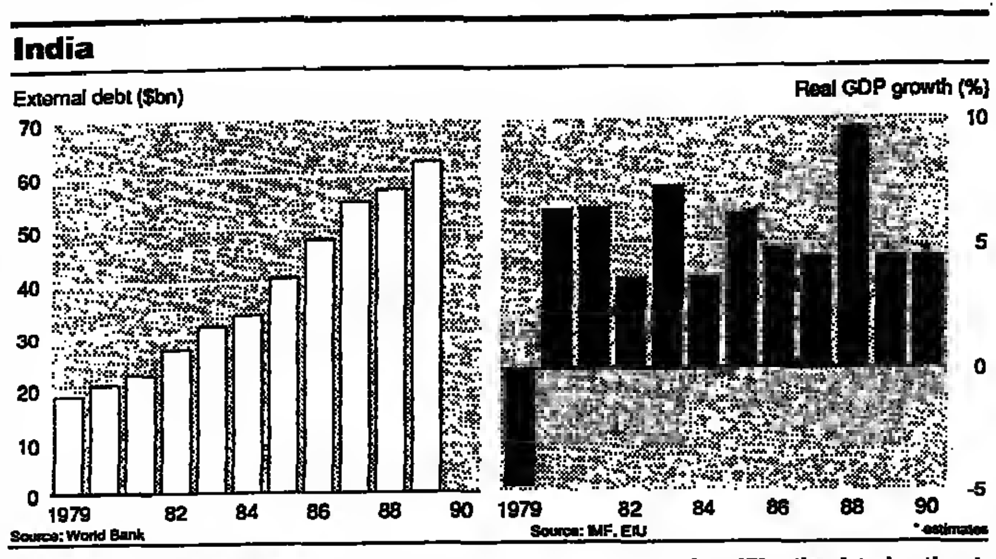
Indian economy frozen in time

Gandhi's wealth of good intentions had no impact on a system steeped in the past, Martin Wolf writes

RAJIV GANDHI inherited both the opportunity and the obligation to unravel important parts of the economic legacy of his grandfather, Jawarharlal Nehru, and his mother, Indira Gandhi. But good intentions were not enough. During five years in office he failed, resigning as prime minister in November 1989 and leaving behind him a country well on the way to economic chaos.

India has long had difficulties in managing its balance of payments. Indeed, it was a payments crisis in the mid-1950s that confirmed the country on its course of inward-looking, forced industrialisation that drew much of its inspiration from the then widely-admired Soviet model. But India's present position is something new. It reflects a breakdown in macro-economic policy, which would have been unthinkable in the old days of Congress supremacy and civil service control.

In 1990-91 india's current account deficit in the balance of payments reached $10bo (£5.7bn), more than 50 per cent of its exports; even with the draconian curhs on imports now in force, it is likely to be $6bo this year. Between 1980



and 1989, India's external debt grew from $20.6bn to $62.5bn – from 12 per cent of gross national product and 136 per cent of exports of goods and services in 1980 to 24 per cent of GNP and 258 per cent of exports of goods and services in 1989.

India, a country desperately concerned to limit interference hy the World Bank and the International Monetary Fund, seems now to be at their mercy.

This deterioration in India's external position is blamed by many policy-makers and commentators on the import liberalisation initiated hy Rajiv Gandhi's government. The true reason is different. It is the scale of India's hudget deficit, which rose from 5¼ per cent of gross domestic product in 1979 to more than 9 per cent in 1986. Just as happened in many Latin American countries in the 1970s, the deterioration in the puhlic finances was the proximate cause of the huge increase in foreign borrowing.

Also as in those countries, the prospective termination of large-scale foreign borrowing in the presence of a substantial budget deficit is likely to bring about a sharp increase in inflation. Given the sensitivity of indian opinion to inflation, such an increase could prove an important further source of political conflict.

The deterioration in India's fiscal position is likely to prove the most important legacy of Rajiv Gandhi's period as prime minister. His attempts at economic liberalisation were not insignificant and led to a substantial improvement in the country's rate of economy growth.

But liberalisation is unsustainable in the presence of substantial macro-economic imbalances, which show themselves in higher inflation, larger current account deficits and soaring international indebtedness.

Furthermore, bowever dramatic it may have been by India's standards, the liberalisation of 1985-87 was decidedly limited by those of almost any other country. The structure of official control – over what can be imported, over who can import, over who can produce, over what can be produced, over where things can be produced, over the amounts that can be produced, over who can be employed and over who can be made redundant – was left intact. The way in which regulations were interpreted may have changed. The basic structnre of control remained unaltered.

That system of controls, which developed after independence as a by-product of a mistaken economic strategy, has become among the most fundamental fact of Indian economic life. Corruption is not incidental and cannot be eliminated, as Rajiv Gandhi discovered, by a "Mr Clean" or, as his successor Mr Vishwanath Pratap Singh also found out, by a "Mr Cleaner".

It is an inevitable consequence of an economy in which nothing can be done without permission, in which virtually all economic decisions are, in consequence, political decisions. The ability to operate such a system is inevitably a condition for successful entrepreneurship and a motivation for political engagement. Unfortunately, these adverse political consequences of the policy choices of the 1950s and 1960s have had few conntervailing economic benefits.

Industrial growth, even though it rose to 5.4 per cent a year in the 1980s, has remained well below levels achieved in virtually all the east Asian economies.

India's exports, crippled by the huge levels of protection afforded to its import-competing industries, are now about 30 per cent of those South Korea.

In short, the task of unravelling an important part of the the economic legacy of Rajiv Gandhi's predecessors remains, as does the pressing need to bring macro-economic stability back to India. Both demand purposeful and coherent government.

But that is precisely what Rajiv Gandhi's tragic death, along with the consequences of India's economic policies for its political system, have made it far more difficult for India to enjoy.

INHERITANCE: a young Rajiv with his grandfather Nehru, who pioneered the policy of inward-looking forced industrialisation

Congress seeks sympathy vote for Sonia Gandhi

By David Housego in New Delhi

MRS Sonia Gandhi, 42, the Italian-horn wife of Rajiv Gandhi who has taken over as president of the Congress party, was strongly opposed to her husband entering politics in the early 1980s.

Reserved and closely involved in educating her two children, she seemed most happy in recent years when her husband was out of power. There was thus amazement in Delhi yesterday when it was announced that she was taking over the presidency of the Congress party.

The thinking hehind the move seems to he based on three main considerations. As president of the party she is best placed to gather the sympathy vote that party leaders expect will swing in Congress's favour during the two remaining days of polling in the general election. Voting will now take place in the 304 seats that remain of the 510 being contested on June 12 and 15.

Rajiv Gandhi won a landslide victory in the 1984 election after his mother's assassination and Congress bopes that Sonia Gandhi can help to reverse the party's fortunes in this election where the party has been losing ground to the Hindn revivalist BJP party.

The second consideration is one of her own family and its political role in india. Rajiv Gandhi, like his mother Indira, would almost certainly have wanted the Nehru dynasty to remain a force. It was because of this reasoning that Mrs Gandhi pushed Rajiv into politics when his younger brother – the real politician among the two sons – was killed in an air crash in 1981.In accepting the presidency, Sonia Gandhi is well placed to ensure that her son Rahul, 20, now at university in the US, can pick np the torch.

The third reason reflects the cold-blooded calculation of Congress leaders. They believe that, as an Italian by hirth, Mrs Gandhi can be kept on a leash and would have no ambitions for the premiership.

The Congress party spokesman, in announcing ber nomination, drew gasps of breath from reporters when he said that she had heen elected unanimously hy the party's leadership hut had not been consulted.

He added that the party's choice as president was not necessarily its choice as prime minister. Congress leaders had similarly hoped to manipulate Mrs Indira Gandhi when she took over the Congress leadership in the mid-1960s.

It was not clear how long Sonia Gandhi would remain party leader after the election. The working committee can replace her by calling a party election.

If Mrs Gandhi showed no initial interest in politics – no more than her husband who began his career as an airline pilot – five years as prime minister's wife have deepened her involvement. The most tangible sign of this is the energy with which she campaigned for Rajiv Gandhi in the Amethi constituency in Uttar Pradesh – of which he was the member. Fluent in Hindi, normally dressed in Indian clothes with a *dupatta* draped across her head, Mrs Gandhi has made an enormous effort to adapt to life married to an Indian. She made herself familiar with the Amethi constituency and its people just as she also learned the complicated relationships of the large Nehru family.

She has an image in public of being unsmiling and avoiding the press. She has given only one known interview – to a Hindi paper, in 1985, when she said "I wanted Rajiv...and Rajiv is my greatest security." In the same interview, Sonia said she did not like to be in the limelight and appeared to suggest it was only for Rajiv Gandhi'a sake that she entered public life. "Why should I fear following him to India or to the ends of the earth for that matter," she said.

In private she is a quiet but warm personality who keeps a firm grip on her household – and on who gained access to Rajiv Gandhi.

It remains a moot point how mnch inflnence sbe had or wanted over ber bnsband's political life. She was, nonetheless, embroiled in the scandals that tarnished his reputation. Part of the allegations were that Italian companies had illegally benefited from government contracts.

The daughter of an Italian industrialist, she met her husband in England. Married in 1968, they have a daughter as well as their son Rahul. The slim, good-looking woman was not the darling of the media. They commented that she seldom smiled and she dressed in blouses that were too large for her.

It was some time before someone finally rose to her defence, saying she had few occasions to smile in public because of the constant threat to her husband's life from Sikh separatists.

She wore large-size blouses to accommodate bullet-proof vests to protect her from the separatists, who blamed Rajiv Gandhi and his mother for a 1984 army assault on their holiest shrine, the Golden Temple, to flush out Sikh guerrillas.

She appeared yesterday to be overwhelmed with grief but to be bearing it with great courage.

HOMAGE TO THE LEADER: Congress supporters yesterday carry Rajiv Gandhi's coffin in Delhi after its arrival by air force aircraft from Madras

Policy change could divert $50bn for human needs, UN report says

Developing countries criticised for neglecting well-being of citizens

By Robert Mauthner, Diplomatic Editor

DEVELOPING countries could do far more to finance their human development needs just hy changing government spending patterns, according to a *United Nations* report published yesterday.

"There are far too many examples of wasted resources and wasted opportunities: rising military expenditures, inefficient pnhlic enterprises, numerous prestige projects, growing capital flight and extensive corruption," the Human Development report for 1991 claims.

Published for the UN Development Programme (UNDP), the report says that as much as $50bn (£29bn) could be found in developing countries for urgent human concerns hy recasting the priorities in countries' budgets.

It emphasises that many developing countries spend more than 25 per cent of GNP through their government budgets, but that their expenditure in "human priority" fields like basic education, primary health care, rural water supply, family planning, food subsidies and social security, is generally less than one-tenth of their total public spending.

Much of the required money could come from freezing military spending, which absorbs as much as 5.5 per cent of the GNP of the developing world. In countries such as Angola, Chad, Pakistan, Peru, Syria, Uganda and Zaire, for example, arms spending is at least double the amount spent on health and education.

The report, prepared by economists under the chairmanship of Mr Mahbub ul-Haq, former finance and planning minister of Pakistan, is equally critical of existing priorities in the allocation of foreign aid.

"If only one-third of today's aid were committed to human priority areas, the aid allocation to these areas would *increase four-fold*," it claims. At present, only one-twelfth of total official development assistance (ODA) is earmarked for human priority goals.

This demonstrates the enormous potential for releasing more resources for human development through a restructuring of aid budgets.

If aid money is not earmarked directly for human development, it is not likely to find its way there on its own, the report emphasises.

It frankly acknowledges that the existing distribution of resources usually suits those in power and that finance ministers of aid-receiving countries are generally reluctant to undertake recurring social expenditures which offer little immediate financial return.

Donors should base their allocations not just on income, population and poverty, bnt also on progress in human development, as measured by the Human Development Index. This index, considered by the report to be a more realistic statistical measure of socio-economic progress than GNP per head, measures 3 basic indicators of human well-being – life expectancy, adult literacy and basic purchasing power for a "decent" living standard.

"The world offers too many uncomfortable examples of a wide divergence between income and human development levels," the report says. Giving telling examples, it points ont that adult literacy in Saudi Arabia is lower than in Sri Lanka, despite the fact that Saudi per capita income is 15 times higher.

Brazil enjoys twice the per capita income of Jamaica, yet its child mortality rate is four times higher.

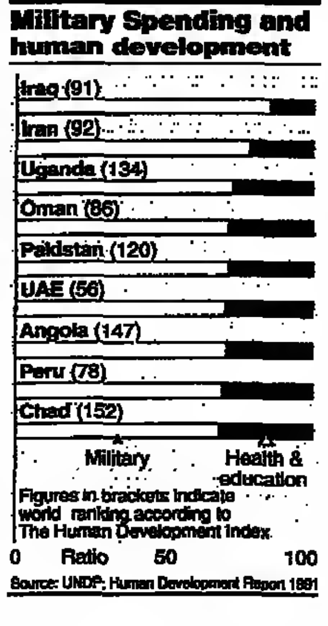
The US is richer than Canada, yet its life expectancy and educational attainments are lower.

Ranking 160 countries on the basis of their human development index, the report places Japan in first place, followed by Canada and Iceland.

The UK comes 11th, immediately after France, while Germany is only in 14th position.

However, according to a "human freedom index", Japan is ranked no higher than 15th in the world classification, equal with the UK.

Human Development Report 1991. Published by Oxford University Press for the United Nations Development Programme (UNDP).



Delors in talks with Kaifu

MR Jacques Delors, president of the European Commission, who yesterday started an official visit to Japan, has pnt trade at the top of his agenda, Stefan Wagstyl writes from Tokyo.

In talks with Mr Toshiki Kaifu, the Japanese prime minister, Mr Delors expressed concern about the EC's widening trade deficit with Japan. After falling steadily since 1988, the deficit has grown markedly in the last six months.

Mr Delors told Mr Kaifu that political co-operation went hand-in-hand with a balance of costs and benefits in economic relations. Mr Kaifu answered by pointing to the rise in Japanese imports from the EC.

S Korea's PM resigns after wave of protest

By John Ridding in Seoul

MR RO JAI BONG, Sontb Korea's prime minister, yesterday resigned in response to a wave of anti-government protests which have seen the largest demonstrations in Korea since tbs introduction of democracy in 1987.

President Roh Tae Woo indicated that he would accept the resignation, although formal acceptance and the naming of a successor has been delayed until today or tomorrow. A government official said yesterday a shortlist of three candidates had been drawn up.

Mr Ro Jai Bong's resignation is a setback for President Roh, who has been resisting mounting preseure to dismiss his prime minister. It is expected to prompt s broader cabinet reshuffle, involving four or five ministers.

The replacement of Mr Ro, regardsd as a hardliner, has been one of the principal demands of opposition and dissident groups. But despite his *resignation, these groups said* that they would continue to hold rallies and protests until further demands are met.

Ths National Dsmocratic Party, the largest opposltion party, said that "a full scals cabinet reshuffle should follow" and that it planned to go ahead with its mass rally this weekend.

Chonminyon, one of Korea's largest dissident groups said, "If the Roh Tae Woo regims continnes with its present police rule, we are going to continue with our fight for democracy".

A spokesman for the group *said* reforms should include getting rid of plain-clothes riot police, abolition of the national security law and release of imprisoned dissidents.

Despite tbese claims, however, the wave of demonstrations, which have been fuelled by the death of a university student at the hands of riot police at the end of April, and which have bronght almost 250,000 demonstrators onto the streets on several separate occaslons slncs thsn, are believed to have peaked.

Mr Ro's resignation also reflects divisions within the *ruling party. Mr Kim Young* Sam, executive chairman of the ruling Democratic Liberal Party, regarded Ro Jai Bong as a possihle rival presidential candidate and had pressed President Roh to dismiss him.

Iraqis to leave city to US troops and returning Kurds

IRAQ WILL withdraw military and police forces from its northern town of Dohuk and allow coalition forces to enter, a US military spokeswoman in Turkey said yesterday, Our Middle East Staff reports.

Captain Marcella Adams, a US official at Turkey's Incirlik air base, said Iraq had agreed to allow coalition troops to snter the city tomorrow, though she would not disclose the size of the entering force.

Dohuk, a provincial capital just south of ths safety zone set up by tbe allies in northern Iraq for Kurdisb refugees, is central to the operation to return Kurds to their homes. More than 200,000 of those who fled the Iraqi forces are believed to come from the city.

Allied forces have stopped short of entering Dohuk while it has been occupied by Iraqi soldiers and police, and many refugees have refused to return while the Iraqi forcss remained.

Kurdish rebel leaders, meanwhile, said yesterday that final terms outlining a form of autonomy for the region could bs reached with Baghdad within two weeks.

● Iran yesterday protested to the US over what it called an attack by a US ship on an Iranian vessel. The Pentagon spoke separately of an incident in which the Bahrain-based La Salle, returned fire when it was shot at by two ships in international waters in the Gulf on Tuesday.

Rhetoric of co-operation heralds oil talks

Deborah Hargreaves reports on a flurry of meetings in the wake of the Gulf war

NEW friendships are being born in the wake of the Gulf crisis as oil industry executives embark on a round of meetings to talk about relations between oil producers and consumers.

On Monday Iran is holding a major international conference in Isfahan, its second largest city, where at least six ministers from the Organisation of Petroleum Exporting Countries (Opec) will debate industry topics with major oil companies and representatives from consuming countries.

Mr Carlos Andres Perez, Vsnszuela's president, has announced a joint initiative with President François Mitterrand of France to hold a summit for 20 countries to discuss oil market co-operation in Paris on July 1-2.

Other initistives inclnde informal round table talks scheduled by Shaikh Zakl Yamani, the former Saudi oil minister. This is likely to be held on Saturday in Geneva to catch interest from some members of the industry on their way to Isfahan.

An Opec committee which prepared the agenda for the ministers' meeting on June 4 acknowledged the interest in a wider debate about industry issues as a way of promoting market stability. In addition, tbs International Energy Agency – the West'e oil watchdog – whose ministers meet in Paris on June 3, has slated producer-consumer dialogue on its agenda.

The aims of these many initiatives remain nebulous, but underlying them is the recognition by Opec producers that they need western casb and technology to increase capacity over the next five years.

Opec wants to raise its production capacity by about 9m barrels of oil a day (b/d) to some 33m to 34m b/d by 1995 – an ambition that could cost up to $120bn. There are increasing signs that the producers are willing to work much more closely with international oil companies and, by extension, oil-using governments, than they have in the past.

What's more, Gulf producers, particularly Iran, are eager to cash in on the political kudos they won in the West by their ability to raise production and avert a serious oil sbortage during the Gulf crisis.

The increasing rhetoric on co-operation has also been heralded by the closer relationship which is developing between Iran and Sandi Arabia in the shifting coalition of Opec politics. Iran has retreated from its former stance as one of the organisation's staunchest price hawks and, along with Saudi Arabia, champions the organisation's target price of $21 a barrel.

Oil users are all interested in security of supply, which has traditionally mesnt a source outside the volatile Middle East. But producere also want to be assured of security of demand.

One idea under discussion is that consumers could sponsor spare production capacity in an Opec country. That extra capacity would be theirs to call on in a crisis.

The US has gone part of the way down this route in its talks with Saudi Arabia on leasing oil to be held on US soil in its Strategic Petroleum Reserve. Some stocks from the SPR were released at the start of ths Gulf war, a move that many in the market believed exacerbated the price collapse.

"These talks will be a way of discussing the practical steps that can be taken on the ground in *actual projects*," believes Mr Mehdi Varzi, oil analyst at Kleinwort Benson in London. Most observers rule out an international commodity pact as unworkable and undesirable.

With Iraq and Kuwait likely to be out of the export market at least until the end of the year and with oil demand set to rise later this year, Opec producers do not need to haggle much over production quotas right now. Demand appears to be rising at a rate that gives them all a chance to boost output without jeopardising their $21-a-barrel target price.

Mr Varzi forecasts an increase of at least 1m b/d in oil demand during the second half of ths year without an upturn in economic activity in the US. Demand in the fourth quartsr of last year was severely depressed by high prices and nncertainty about the outcome of the Gulf crisis as well as an extraordinarily mild winter in the US and Japan.

This gives Opec the chance to present a united and pragmatic face to the West in an extended dialogue on co-operation. But by the end of the year, when Kuwait and Iraq start exporting, the heat could be on again and the cartel conld return to its fractious disputes of old.

Britain baulks at giving ground to China

Talks about Hong Kong airport fail in Peking

By John Elliott in Hong Kong

TALKS between Britain and China on Hong Kong's plans for a new HK$100bn (£7.5bn) international airport ended without agreement in Peking late last night after five days of intensive negotiations between senior officials.

Britain is believed to have refused to give China a wide degree of control over leading issues in Hong Kong as part of a deal which would inclnde Peking's approval for the airport.

China, which regains sovereignty over Hong Kong in 1997, is understood to have rejected Britain's proposal that agreement be reached on the airport separately from the wider issues.

This demonstrates China's growing determination in recent months to use the airport impasse to gain wide influence in Hong Kong before 1997. Without China's approval, Hong Kong cannot raise intsrnational private sector finance for the project.

It appeared last night, however, thet there might be more talks later. Both sides are to explain their views st separate press conferences in Peking this morning. Mr Andrew Burns, a senior diplomat from London who led the UK team, will then fly to Hong Kong for consultations before returning to London.

China has shown its determination to try to control events in Hong Kong by lodging a formal complaint with the UK about a 12-year radio broadcasting licence granted two weeks ago to Metro Broadcast Corporation, a local consortium led by Mr Li Ka-shing's Hutchison Whampoa, John Elliott writes. The complaint has worried the government and local businessmen because it demonstrates that China intends to make its views felt on a broad range of business issues before 1997 when it regains sovereignty. This will slow down business decisions and could deter investment.

Top Hong Kong officials and the colony's executive council decided st smergency meetings late on Tuesday night and early yesterday that Britain should not offer further concessions. Earlier they had tried to meet China's concerns sbout drains on public expenditure by trimming the airport plans.

Private sector interests in Hong Kong are informally discussing mounting a rescue package if the British and Hong Kong governments decide there is no point in further talks.

South African police arrested Mrs Winnie Mandela twice yesterday as she led women's demonstrations in support of black political prisoners on hunger strike, Reuter reports from Johannesburg. "Yon are manhandling me for the second time," she screamed at riot police who dragged her away from a road junction that she and her supporters had blocked in central Johannesburg. Mrs Mandela, 56, wife of African National Congress deputy president, Mr Nelson Mandela, was first arrested at dawn for trying to block the same street. She was freed from court after being charged with obstruction and resisting arrest, and was arrested for the second time barely two hours later.

300 held in Tunisia over 'foiled coup plot'

By Our Middle East Staff

THE Tunisian government announced yesterday that it had foiled a coup plot by Islamic fundamentalists and arrested 300 people, including 100 military personnel.

Mr Abdallah Kallel, the interior minister, told a news conference in Tunis that those arrested belonged to the Nahda (Renaissance) Islamic movement.

President Zine El Abidine Ben Ali sought to placate Tunisian fundamentalists after he overthrew Habib Bourguiba in 1987, but he refused to recognise Nahda as a political party and tbe authorities have cracked down on the movement in recent months.

Two students were reported killed two weeks ago during a wave of fundamentalist unrest in Tunisian universities.

Mr Kallel said the plotters, including officers with ths rank of major, planned to seize power in concert with street demonstrations organised by Nahda in the coming weeks.

The organisers of the proposed coup had met in Hammamet on January 6 and intended to take over the defence and interior ministries, radio and television stations and the presidential palace, he said.

"Ws have thwarted this bloody plot," said Mr Kallel. "I can say that all the terrorist elements, except those who fled abroad, have been arrested."

He implicated four Nahda leadsrs living in exile in Algeria and France, including Mr Rached Ghannouchi, the organisation's president, and clalmed that Frencb and Algerian officials were willing to help Tunisia resolve the affair.

The events in Tunisia will certainly be examined wlth interest in nelghbouring Algeria, where tha fundamentalist Islamic Salvation Front *is accepted as a political party* and is contesting a general election next month.

On Tuesday, a Tunisian court sentenced seven members of Nahda to life imprisonment for their part in an attack on offices of ths Democratic and Constitutional Assembly, the ruling party, in which a guard was set alight and killed.

US insurance industry regulation under attack

By Nikki Tait in Washington

THE Gsnsral Accounting *Office, the investigative arm* of Congress, yesterday sharply criticised the system of state regulation of the US insurance industry.

The GAO told a congressional sub-committee headed by Mr John Dingell, a Democrat from Michigan, that the adequacy of solvency regulations varied substantially between states.

Mr Richard Vogel, GAO assistant controller gensral, also said his office did not believe the National Association of Insurance Commissioners (NAIC) – the umbrella organisation for state regulators – had the legal anthority or the political clout to instigate a nationally acceptable standard.

The GAO also complained about the speed at which troubled insurance companies are spotted and tackled; the lack of uniformity in reporting and accounting requirements; and the inability of state commissioners to oversee foreign holding companies and non-US based reinsurers.

The Dingell sub-committee has spent about three years looking at the state regulatory system and, to date, has not been impressed. This has led to widespread speculation that some form of federal supervision will soon be proposed.

The question of the regulation of insurers was given added topicality by last month's seizure of Executive Life and Executive Life of New York, *the two operating arms* of Californian insurance group First Executive. This was the largest-ever insurance company collapse in the US.

Mr Vogel said "the NAIC should be commended for its efforts but it lacks the anthority to compel states. The system is only as strong as its weakest link".

Yesterday afternoon, however, the NAIC defended its record and broadly opposed any central intervention. It told the Dingell sub-committee that it believed there was some scope for a federal role in the regulation of non-US insurers and backed a federal criminal statute to cover crime in the insurance industry.

Colombian drug baron 'to surrender'

MR Pablo Escobar, leader of the Medellín drug cartel, plans to turn himself in within two weeks, according to a priest who has been serving as an intermediary in traffickers' negotiations with the Colombian government, AP reports from Bogotá.

Rev Rafael Garcia helped on Monday to secure freedom for two journalists held by the cartel: Mr Francisco Santos, editor of Colombia's biggest selling newspaper, El Tiempo, and Ms Maruja Pachon, director of tha Colombian Film Institute.

Mr Garcia later met President César Gaviria to discuss the possibility of Mr Escobar's surrender.

Ths priast, who saw Mr Escobar *last* week, said the drug baron wanted the government to protect him in prison after he surrendered. Mr Escobar, blamed by authorities for ordering hundreds of murders, has many enemies.

Last September Mr Gaviria offered to reduce jail sentences and cancel the extradition to the US of drug traffickers who surrendered and confessed at least one crime. Several traffickers, including the Ochoa hrothers, Mr Escobar's colleagues, have turned themselves in.

Senate acts on funds for political units

By Nancy Dunne in Washington

THE US Senate has approved legislation which prohibits foreigners from giving money to or seeking influence over political action committees, which contribute to political campaigns.

The move comes amid rising concern over foreign influence on the US political process.

However, the 3.5m US employees of foreign-owned companies will still be allowed to form the politically influential committees, called PACs, whicb provide financing for national candidates.

This was a rejection of the argument that such employees could be subjected to pressure from their parent companies in making decisions about contributions.

The new provision, sn amendment to campaign finance reform legislation, was passed on Tuesday night. It was introduced by Senator John Breaux, a Louisiana Democrat.

It had the support of foreign companies, whose representatives lobbied hard to prevent a more restrictive amendment backed by Senator Lloyd Bentsen, which was defeated.

Under existing regulations, PACs sre prohiblted from accepting foreign contributions. Senator Bentsen complained that the rule was not monitored or enforced. He produced a study saying that 120 PACs of companies with significant foreign ownership had operated in the 1987-88 election campaign, contributing $2.8m (£1.61m) to US candidates.

"I fear that a more insidious process is at work: direct or indirect contributions or material support from foreign states or entities," he said. "We need to keep American elections American."

Senator Breaux, former chairman of the Democrat Senate campaign committee, argued that many subsidiaries of foreign companies were run totally by Americans.

Shell Oil, located in Louisiana, employs thousands of US citizens, he said, who under the Bentsen amendment would not be allowed to contributed to PACs.

His legislation provides for fines or imprisonment for violations. It also directs the Federal Election Commission to require that regular PACs certify that "no foreign national has participated either directly or indirectly in the decision-making of the PAC".

US pact unlikely to dent Mexican distrust

A beneficial free-trade deal will not ease traditional antipathy, writes **Damian Fraser**

MR John Negroponte, US ambassador to Msxico, has like many of his predecessors *embarrassed the Mexican gov*ernment, enraged ths Mexican left, and stirred up none too latent anti-American feelings.

The latest incident concerns the most sensitive of all subjects – the relationship with its northern neighbour if, and when, a free-trade agreement (FTA) is signed between the two countries.

"Mexico is in ths process of dramatically changing the substance and image of its foreign policy," the ambassador is alleged to have written in a confidential mamorandum obtained hy the lsft-wing weekly newspaper Processo. "It has switched from an ideological, nationalistic and protectionist approach to a competitive view of world affairs."

In the ambassador's view, a free-trade agreement would "institutionalise acceptance of a North American orientation to Mexico's foreign relations".

That last line particularly incensed the Mexican left. While Mexico's ruling party, the Institutional Revolutionary party, may have disappointed the left in its domestic policies, it won over many of them by pursuing a non-aligned foreign policy, doggedly upholding tha principle of non-interference in other countries' affairs.

Mexico has a long record of opposition to Washington's interventionist approach to dealing with Central America and the Caribbean.

Despite enormous US pressure, Mexico has maintained strong links with Cuba. In the 1970s, backed by new-found oil wealth, Presidents Luis Echeverria and Jose Lopes Portillo solicited new friends in the third world, many of whom were avowed enemies of the US. In ths 1980s Mexico's support for the Sandinistas soured relations with the Reagan administration.

Under President Carlos Salinas de Gortari foreign policy, in tandem with changes in Mexico's economy, has undergone a decisive change.

Differences with the US over Central America have largely disappeared so that Washington is not impeding Mexico in hosting peace talks for both EL Salvador and Guatemala and their respective guerrilla movements.

Mr Salinas appeared ready to send troops to the Gulf, before belng shouted down by Mexico's anti-war opposition. The president has also spent almost six months pleading with the US to pass a free-trade agreement, and he has at least another year more of pleading to do.

This so-called "competitive" view of the world is not, however, driven by a sudden Mexican admiration for America.

Salinas: orchestrated foreign policy changes

Mr Salinas, despite – or perhaps because of – being educated in the US, is no lover of the *gringos*. For the most part the policy change is determined by economic necessity; about 70 per cent of Mexican exports now go to the US, against just over 50 per cent in 1982. Mr Salinas's liberal reforms of Mexico's economy will only work if they attract US investment, capital and markets.

Mr Salinas has calculated – probahly correctly – that thare will be no big breakthrough unless Mexico moves towards the US both politically and economically. Lnckily, President George Bush has made this as easy as possible; the two presidents are said to be friends, and during the Gulf crisis President Bush called Mr Salinas frequently.

But where Mr Negroponte sppears to be wrong is in believing the FTA will institutionalise changes in foreign policy. Mexican antipathy to tha US, while perhaps receding as the two economies integrate, has a long bistory and will not be changed hy one trade agreement.

More to the point, if an FTA is signed Mexico may well be more, rather than less free, to pursue its independent goals. One reason behind Mr Salinas's move towards the US politically is to secure economic favours. With an FTA, political horse-trading would hecome less necessary as Mexico, and US investors in the country, would have guaranteed access to the North American market.

Similarly an FTA will improve Mexico's relations with other countries keen to secure access to the North America market. Chile, Venezuala, the Central American republics and Colombia are all negotiating free-trade agreements with Mexico, in the hope an agreement will give them an edge in exporting to the US. While fears remain that Mexico is turning its back on them, Mr Salinas's free-trade overtures to just about every country in the continent seem to have allayed most concerns.

The prospect of an FTA has also strengthened relations with Japan, the Pacific Rim, and Europe, none of whom have shown a great interest in Mexico in the past 40 years.

Japan recently bank-rolled a $2.5bn (£1.44hn) project to rednce pollution in Mexico City; cynics interpreted it as a bribe to ensure an FTA does not discriminate against Japanese goods. Last week Mexico was finally admitted to the Pacific Basin group and, not least, the administration has signed a series of trade agreements with the EC. It has even become a shareholder in the European Bank of Reconstruction and Development.

These foreign policy initiatives are with first-world countries, marking the biggest break with Mexico's past.

Mr Salinas, unlike many predecessors, wsnts value for money from Mexico's foreign policy – aven if it means ignoring the world's non-aligned countries, with whom Mexico has traditionally been linked.

But while this change is substantial, traditional Mexican distrust and disdain for the US will remain. As Mr Jose Juan Olloqni, a former Msxican ambassador to the US, says: "Don't forget, when they were shooting turkeys in Massachusetts, we already had our first university."

Outcry over Argentine plan to stagger bonuses

PLANS by Mr Domingo Cavallo, Argentina's economy minister, to stagger payment of a bonus traditionally paid to all employees in June and December has aroused widespread anger and boosted oppo*sition to his economic stabilisa*tion programme, writes John Barham in Buenos Aires.

Even normally docile pro-government trads nnions object to the measure, as do members of the employers' association. People are angry that tbeir bonuses, first granted under the rule of General Juan Perón, have suddenly been postponed while inflation continues to erode incomes. Yesterday 1,500 outraged pensioners tried to storm the supreme court buildings to demand increased pensions.

Mr Cavallo said that phasing payments throughout the year would ease potential inflationary pressures caused by the sndden injection of demand into an overheated economy. Inflation is already expected to *start rising again* in *May*.

However, economists say the real reason for Mr Cavallo's decision is that he cannot pay both tha consolidated pnblic sector bonns, estimated at $600m (£346.8m), and honour Juns's $440m foreign debt service bill.

The government had expected $240m in loans from the International Monetary Fund. The money may only become available in August.

Congress must approve Mr Cavallo's proposal, and passage is likely to be far from easy.

Salinas dismisses attorney-general after prison riot

MEXICO'S attornay-general has been fired after months of controversy over human rights violations and corruption in the federal police force, AP reports from Mexico City.

President Carlos Salinas de Gortari gave no reason for dismissing Mr Enrique Alvarez del Castillo yesterday, a day after the president puhlicly praised the attorney-general for his "loyalty, honesty, firmness and decisiveness".

Mr Alvarez del Castillo, who was appointed in 1988, was fired only days after fighting between rival drug gangs erupted in a prison in Matamoros, leaving 18 inmates dead.

The incident was an embarrassment to an administration that has put a high priority on the war against drugs.

Brazilian general strike falls short of objective

THREE of Brazil's biggest labour unions began a 48-hour gansral strike yestsrday against the government's economic policy, but failed to paralyse the nation, Rsnter reports from São Paulo.

São Paulo, tbe principal industrial city, was choked with traffic as commuters scrambled to find other transport after most bus and subway workers walked ont at midnight.

In Rio de Janeiro, Brazil'a second largest city, and Santos, home to Latin America's largest port facility, services appeared to be functioning normally.

Officials at international airports in Rio and São Paulo said they were operating normally and flights were on time.

Banks were functioning with reduced staff as many workers joined the strike. In downtown São Paulo about 40 to 50 per cent of small shops were open by midday.

Union leaders aim to pressure President Fernando Collor de Mello to change the economic policies that have slowed runaway inflation but plunged Brazil into its worst recession in years.

Earlier this month Mr Collor replaced his economic team after the resignation of Ms Zelia Cardoso de Mello, his controversial economy minister.

Mr Collor said, however, he would not make any radical changes in tough policies that have frozen wages and prices.

300 held in Tunis[…] over 'foil[…] coup plo[…]

n distru[…]

BR to apply for international telecom licence

By Hugo Dixon

BRITISH RAIL, the state-run network, is planning to apply for an international telecommunications licence in a move which will test the openness of the government's new telecommunications policy.

In its telecommnnications policy document earlier this *year, the government* said that the exclusive rights held by BT, formerly British Telecom, and Mercury Communications to snpply international telecommunicstions services would be abolished.

It qualified this, however, by saying that it was unlikely to grant new international licences in the short term and that it was premature to invite applications.

British Rail, nevertheless, has decided to apply for an international as well as a domestic long-distance licence.

Mr Peter Borer, chief executive of British Rail Telecom, said the company would like to provide a comprehensive service to its future customers.

British Rail's determination could cause difficulty for the Department of Trade and Indnstry. Minieters are unlikely to want to reject such an application as it could undermine their claim to have created the most open telecommunications market in the world.

The DTI, however, believes that the complex international acconnting ratee eystem, which determines how revenue from international calls is divided between operators, makes it difficult for new competitors to be introduced into the *market.*

Mr John Redwood, telecommunications minister, stressed this point at a dinner earlier this week.

International services are one of the fastest and most profitable parts of the total telecommunications market. BT's profit margins on international calls are about 60 per cent and the market is growing at more than 10 per cent a year.

British Rail already has an extensive network of fibre optic cables laid alongside its tracks. It plans to develop this into a commercial business by forming a joint venture with as yet unnamed industrial partners with telecommunications expertise.

One way of providing international services would be for British Rail to link up with other European railway companies. The European railways have an embryonic project to *construct* a pan-European telecommunications network along their tracks.

However, Mr Borer made clear that British Rail'e ambitions in international telecommunications went beyond the pan-European railway project. He said he wanted to be able to provide services to destinations outside Europe and that the European railway project was at its early stages anyway.

● BT'e latest official job loss figures, expected with tomorrow's annual results, are likely to play a crucial role in debates at the National Communications Union's annual conference which is due to start next week.

The 150,000-strong union is the biggest in BT. The conference will *discuss the prospects* of redundancy, job losses and the use of contractors.

Hurd tries to unite Tory MPs on Europe

MR Douglas Hurd, the foreign secretary, deployed all his diplomatic skills in the House of Commons yesterday to minimise the differences among Conservative MPs over moves towards political and monetary union in the European Community, writes Ivor Owen.

He was unruffled by an attempt by Mr Gerald Kaufman, the opposition Labour *party's foreign affairs spokes*man secretary, to identify a three-way split in the Conservative ranks.

Mr Kaufman contended that Mr Hurd was ready to sign up for economic and monetary union, while other ministers favoured the two-speed option suggested by Sir Leon Brittan, the former cabinet minister and vice-president of the European Commission.

The third faction, Mr Kaufman suggested, included Mr John Major, the prime minister, who had "stirred up" 104 Conservative backbenchers on Tuesday to support a parliamentary motion opposing further erosion of the powers of the House of Commons.

Rejecting Mr Kaufman's assertions, Mr Hurd stressed that the motion referred to a compromise proposal by Luxembourg.

Like the prime minister, Mr Hurd stressed there were some matters in the draft treaty which would need "substantial change" if they were to secure the support of the British government.

Mr Nick Budgen, a Conservative MP who has criticised government policy on the European Community, warned of a "grave danger" that the *House and the country would* be left without leadership on economic and monetary union.

Economy contracts for third successive quarter

By Peter Norman, Economics Correspondent

THE British economy contracted for the third successive quarter in the first three months of this year. However, government figures showing a slowdown in the rate of decline suggested that a turning point may be near.

Preliminary estimates from the Central Statistical Office pointed to an inflation-adjusted 0.6 per cent drop in output-based gross domestic product *in the first quarter, against* that of the 1990 fourth quarter. This came after falls of 0.9 per cent and 1.4 per cent respectively in the fourth and third quarters of last year.

GDP is the broadest measure of economic activity in Britain, covering output in the service and production indnstries as well as construction and agriculture.

Yesterday's figures, showing s first-quarter GDP decline of 2.5 per cent compared with the same period of 1990, strongly suggest that Britain is experiencing its second worst recession since the Second World War, although the current downturn is not as bad as that *of the early 1980s.*

However, other government figures reinforced the impression that the economy was declining at a slower rate in the first quarter. The provisional estimate of manufacturers', wholesalers' and retailers' stocks, which the CSO measures in 1985 prices, showed a seasonally adjusted fall of £849m in the first quarter after de-stocking of £1.48bn in the final quarter of last year.

CSO figures disclosed a £134m first-quarter increase in work in progress in the manufacturing sector after a £645m decline in the fourth 1990 quarter.

While reporting an overall 9 per cent drop in new construction orders in the first quarter, the Department of the Environment said new orders in the private housing sector were 7 per cent higher than in the fourth quarter of last year. New housing orders generally lead recovery in other parts of the construction industry.

Treasury officials said they were encouraged by yesterday's figures which suggested that the pace of recession was decelerating.

Mr Bill Martin, chief economist of investment house UBS Phillips & Drew, said the data were consistent with the forecast of Mr Norman Lamont, the chancellor of the exchequer, for recovery around the middle of the year. "If anything, the figures suggest that the budget forecast of a 2 per cent contraction in GDP this year could be too pessimistic," he said.

Others warned against euphoria, however. Addressing a conference in London, Mr Gavyn Davies, chief UK economist of Goldman Sachs, said the economy was probably "troughing" after a very severe recession and that the recovery will not be strong.

The GDP figures showed a 0.7 per cent drop in service industry output in the first quarter and a 1.1 per cent decline in manufacturing production against a 2.9 per cent rise in energy production and water supply.

CSO officials said the Gulf war had a noticeable effect on service industries' output. Air transport was hit while there was also less use of railways.

Banking adjusts to the rigours of recession

David Lascelles examines the prospects for an industry squeezed by mounting losses

The UK banking industry may be bruised by the recession, but it is also going through a healthy adjustment, in the view of the Bank of England.

In its annual eupervisory report yesterday, the Bank paints a picture of an industry equeezed by mounting loan losses and costs, as well as by *severe competition.* "1990 was a difficult year for banks," it states, noting that two clearing banks (Midland and Standard Chartered) made a rare move to cut their dividends.

LARGE BRITISH BANKS: EARNINGS

£bn *Percentages in italics*	1986	1987	1988	1989	1990
Trading profits before bad debts	5.58	6.02	6.86	7.72	7.29
Pre-tax profits	3.84	0.73	5.67	0.86	2.81
Post-tax profits	2.48	0.09	3.68	0.50	1.36
Pre-tax return on equity	*24.30*	*4.00*	*27.50*	*3.80*	*11.70*
Post-tax return on equity	*15.70*	*0.50*	*17.80*	*2.20*	*5.70*
Return on total assets	*1.20*	*0.21*	*1.51*	*0.19*	*0.60*

Nor were their problems unique. "Many internationally active banks have been re-examining their strategy and scale of operations, including their activities in London," says the Bank report.

The Bank, however, pinpoints developments which it suggests could prodoce a more robust banking sector in the years ahead.

Despite their bad debts, UK banks are strong by international standards, and they should not be constrained by capital adequacy requirements. Banks are also developing new sources of income from non-lending activities such as money transmission. These accounted for 39 per cent of the total last year, up from 37.7 per cent the year before.

The Bank notes that a combination of the recession and the retreat of many foreign banks has taken some of the pressure off competition.

This has enabled banks to raise their lending margins. Last year saw the first increase in international margins in over a decade, and the Bank expects to see both domestic and international margins widen this year.

Officials say this marks what could be a *fundamental* change in the economics of banking. With higher profitability, banks' access to the capital markets will also be improved and their balance sheets strengthened.

Looking ahead, the Bank expects the 1990s to be less "faddish" than the 1980s, which was a decade when innovation and international expansion overstretched many banks. The Bank is encouraged by the way bankers are talking of returning to their "core" markets, and curbing pointless international activities. It sees no evidence of "starry-eyed" plans to *build* pan-European banks in the EC single market.

London's role as a financial centre could suffer because of this as foreign banks pull back. There are already signs of a decline in London's international banking population. But the Bank said it would prefer to see smaller numbers if these were more durable.

Yesterday'e report suggests the Bank has been busy in its supervisory role. Three banks went into administration, the first bank failures for many years, and seven more had their licences revoked or restricted, the highest number since 1986.

The Deposit Protection Board, which pays out depositors of failed banks, also had to borrow £50m from the Bank to cope with the failures. The Board will have to pay out £32m, of which about £24m will go to depositors of British & Commonwealth Merchant Bank.

● Money supply and lending *by banks and building societies* increased faster than expected last month, but not sufficiently to indicate a revival in economic activity.

Bank of England figures showed a seasonally adjusted 0.5 per cent increase in M0 in April, against expectations that this narrow measure of money supply, which consists mainly of notes and coins in circulation, would rise by 0.1 per cent.

Competition rises 1,000% for London jobs

COMPETITION for job vacancies in London has increased by more than 1,000 per cent since 1980, according to the opposition Labour party, which today launches its latest attack on the government's handling of the economy, writes Alison Smith.

Labour says the rise in unemployment and the reduction in vacancies at Jobcentres in London means that while in January 1980 there were fewer than three people unemployed *per Jobcentre vacancy,* in March 1991 there were more than 26.

Mr Henry McLeish, an opposition employment spokesman, has also produced a survey showing how the "economic collapse" has affected the capital's 84 parliamentary constituencies.

The survey, which forms part of a concerted campaign launched this week to strengthen Labour's standing in London, targets around 20 marginal Tory seats in the capital which will be prime Labour targets in a general election. The opposition's economic assessment shows these seats are among the areas particularly affected by the current recession.

"It is obvious that over the last decade the London economy has been declining, and a number of key indicators make it clear that the damage being done is completely out of line with what has been happening in other regions of the United Kingdom," Mr McLeish said.

Apart from London, other regions which have seen steep increases between the numbers of unemployed for each Jobcentre vacancy in January 1980 and in March 1991 are the south-east (350 per cent), East Anglia (289 per cent) and the *East Midlands* (241 per cent).

Northern Ireland is the only region is which the comparison between the two dates shows an improvement from 1980.

UK NEWS

Bulk of Irish talks to be held in Belfast

By Ralph Atkins and Our Belfast Correspondent

MR PETER Brooke, Northern Ireland secretary, made some progress yesterday by reaching agreement that the bulk of discussions involving the Irish government would be held at Stormont parliament buildings outside Belfast, Northern Ireland.

The modest advance raised hopes that "round-table" talks could take place soon, but last night it was unclear if sufficient progress had been made for the first session between the province's political leaders to take place next week.

Mr Brooke has invited the province's main constitutional parties to attend meetings at Stormont on Tuesday.

His plan is for formal talks to start with the province's local parties discussing the internal government of the province. The second strand, when Dublin would enter, would cover relations between the north and south of Ireland.

So far, the identity of the independent chairman for the second strand, the terms of reference and standing orders have not been resolved. Work is expected to continue informally over the weekend.

Last night, Mr Brooke expressed satisfaction at the progress made but said he did not want to give "a more rosy hue than it deserves".

The nationalist Social Democratic and Labour Party had withdrawn from the talks process until Mr Brooke reached agreement with the Unionists, although they were in telephone contact yesterday. It is not yet clear whether they will be present on Tuesday.

All sides had previously agreed on strand two starting with a formal opening in London, then proceeding to Northern Ireland, before a final meeting in Dublin.

Until yesterday, however, the precise location in Northern Ireland had not been settled. It has been suggested that the Rev Ian Paisley, leader of the Democratic Unionist Party, was worried about using the parliament buildings because of protests there against the 1965 visit of Mr Sean Lemass, the then Irish prime minister.

CBI steps up pressure for cut in interest rates

By Charles Leadbeater, Industrial Editor

THE Confederation of British Industry, the employees' organisation, intensified its campaign for an immediate cut in interest rates yesterday. It accused the government of relying npon misleading official measures of inflationary pressures.

Mr John Banham, the CBI's director general, said the government's reluctancs to cut interest rates was based on officials measures of factory gate prices and wage settlements which overstated the extent of inflationary pressure in the economy.

John Banham: critical

The attack is the furthest the CBI has gone in criticising the government's response to the recession. Mr Banham stressed that the CBI shared the government's view that the defeat of inflation should be the main priority for economic policy. However, the CBI is completely at odds with the government about whether economic conditions warrant a further interest rate cut.

The stepping up of the CBI's campaign for an interest rate cut came just a day after Mr John Major, the prime minister, had taken the opportunity of the confederation's annual dinner to warn industrialists not to listen to siren voices calling for policy to be relaxed.

Mr Major's message was reinforced last night by Mr Norman Lamont, the chancellor of the exchequer, who forcefully reiterated the government's determination to bring down inflation before it relaxed monetary policy.

Mr Lamont told a City of London andience that the government would stick to its guns until inflation was beaten and not declare victory when the battle was only half fought.

However, the CBI's governing council, in a statement issued after its monthly meeting, warned that the economy was not reviving but had weakened with the waning of euphoria about the end of the Gulf war and the transitory surge in retail sales at Easter.

Mr Banham said the government's resistance to an interest rate cut was based on inaccurate official measures of inflationary pressures.

He said the strongest inflationary pressure in the economy was coming from the public sector and prices that were within the government's control rather from the private sector.

The CBI estimates that high interest rates have brought down private sector inflation to 3.5 per cent. It argues thet inflation in areas such as fuel, transport, and household services such as telecommunications – where the government influence prices – is running at about 9.9 per cent.

The government's concern about wage inflation failed to reflect the rapid growth in the number of companies that have deferred pay settlements and in effect introdnced pay pauses. CBI evidence shows the number of companies where pay pauses are in operation has risen from one in 10 last year to one in four this year.

Mr Banham criticised ths official statistics on factory gate prices for failing to reflect widespread price discounting and price cuts in some sectors such as construction.

MPs condemn response on BAe

By Ralph Atkins

THE government has incensed Conservative and opposition MPs by giving only an eight-paragraph response to a damning investigation by a Commons' committee into the controversial sale of the Rover car gronp to British Aerospace (BAe).

The brief response to the 2½-year inquiry was condemned as "quite inadequate" by the cross-party select committee on trade and industry.

Mr Gordon Brown, Labour's trade and industry spokesman, said the reply was "evasive and ultimately contemptible".

The select committee report, published in February, said Parliament had been been "seriously misled" over aspects of the sale of Rover in 1988. It fuelled the row over the sale which had been triggered over ths disclosure of addition "sweeteners" that the government had paid BAe.

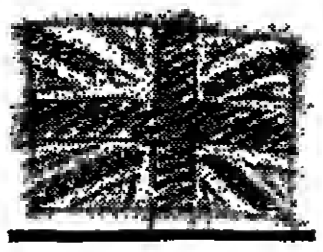
The department of trade and industry (DTI) yesterday concentrated on only two, relatively minor, points raised by the committee: the referencing system on letters system used by the DTI and the effectiveness of European Commission administration processes.

Members of the select committee are annoyed at the government's failure to address its criticism of the DTI's valuation of Rover's assets, the deferment of payment for the sale and allegations that the DTI had not told the European Commission "the full story".

They also believe the government has twisted its words by saying the committee "acknowledged thet strict legal requirements were fulfilled". The committee's report said "strict legal requirements may have been fulfilled".

The DTI appears to have taken the view that there was little point in a point-by-point rebuttal of the committee's report. A spokesman said aspects not covered in its response had been "comprehensively and sxtensively" addressed during its inquiry.

BRITAIN IN BRIEF



UK sonar contract cancelled

The Ministry of Defence has cancelled a submarine sonar contract, thought to be worth £30m, with Ferranti-Thomson, the joint venture between Ferranti International and Thomson-CSF of France.

The Type 2075 sonar was being developed for a new batch of Upholder-class diesel-electric submarines bnt, under the government's plans for cutbacks in defence spending, no more of these submarines are to be built.

The first of the sonars was to have been delivered in October. Although the company will not now obtain the full value of the contract, it is understood to be satisfied by the cancellation terms negotiated with the MoD.

Nurses support EC proposal

The Royal College of Nursing gave broad support to a controversial European Commission proposal that workers should have an 11-hour break between shifts.

Such a break is one of the proposals in the EC's social action programme, many aspects of which have been opposed by the UK government. The RCN said this could have a big effect on nurses' working patterns.

Nurses generally work a three-shift pattern each day, but there are no regulations covering minimum breaks between shifts.

Remarks on Israel defended

Mr Douglas Hurd, the foreign secretary, strongly defended a prominent foreign office official who was alleged to have imperilled Anglo-Israeli relations by making known his personal views.

According to newspaper reports, Mr David Gore-Booth, an assistant under-secretary of state, accused Israel of being no better than other Middle East states on militarism, democracy and human rights.

Mr Hurd said Mr Gore-Booth, who was attending a meeting of the council for the advancement of Arab-British understanding, had made it clear that some of his answers were an expression of personal views and not government policy.

Executives involved in the building of the Channel tunnel yesterday celebrated the latest breakthrough as workers tunnelling from Britain and France met in the first of the two rail-tunnels to near completion. Jack Lemley, chairman of Trans Manche Link, the contractors, is pictured (centre) with colleagues Klass Van der Lee (left) and Pierre Matheron in the tunnel.

Oil licences to be distributed

The UK government will give the go-ahead for companies to drill for oil on 120 North Sea blocks when it announces the results of its 12th licensing round. For the first time, it will carve up the region west of Shetland, off the north coast of Scotland.

The licensing round was announced last July to a large response of 115 applications from 80 companies, attracting some prominent first-time bidders. Newly privatised UK electricity companies, which have not been involved in the North Sea before, are expected to receive exploration acreage.

Senior doctors face criticism

The conduct and quality of some senior doctors of the UK's state-run National Health Service became the latest target in the continuing political uproar over the government's health reforms.

Mr Peter Griffiths, chief executive of the Gny's and Lewisham hospitals trust – who started the current controversy a month ago by announcing job cuts – told the House of Commons health committee that, while the vast majority of his trust's 250 consultants worked "way, way above" their contracts, some spent too much time on international travel and not enough time in the hospital.

"Some spend too much time in Harley Street [private practice] and not enough in our facilities. There are some whose clinical practice is not up to the standard which their colleagues would wish it to be."

Nissan appoints executive team

Nissan Motor, the Japanese car maker, is still appointing senior executives to the management of Nissan Motor (GB), its planned UK vehicle distribution company.

The appointments were made despite the continuing legal action in the High Court, which could jeopardise its controversial plans to take over direct control of the distribution of its vehicles in the UK from January 1 next year.

Nissan, Japan's second largest car maker, is embroiled in an embarrassing battle with Nissan UK, its privately owned vehicle distribntor in Britain. At the end of last year Nissan cancelled NUK's distribution contract with effect from the end of 1991, and has since announced the setting up of Nissan Motor (GB), as its wholly owned distribution operation.

RAF refused Gulf targets

The Royal Air Force twice declined during the Gulf war to attack targets in Iraq assigned to it by US commanders because it feared "collateral damage" to civilian areas.

Air Vice Marshal Bill Wratten, the British air commander during the conflict, said he had chosen to "go for alternative targets".

In mid-February the RAF admitted that in one attack on a bridge at the town of Fallujah a bomb from a Tornado went astray into the edge of a populated area.

Centralised media buying

US wary of European export

Alice Rawsthorn reports on consternation in the North American advertising industry

The apparently ineluctable trend towards centralised media buying, whereby advertisers separata media buying from the rest of their advertising and consolidate it into a central buying unit, is currently one of the hottest topics in the European advertising industry.

So the news earlier this month that Carat, Europe's biggest media buying business, was finalising plans for a joint venture with Western International, the largest US media specialist, caused consternation in the US industry.

Carat, which is owned by Aegis, the UK communications group, maintains that tha Western venture amounts to little more than formalising the existing commercial relationship between the two companies. But it comes at a time when a number of major advertisers – notably Nestlé and Grand Metropolitan, the international food and drink groups – have decided to consolidate their US media buying into a single agency.

Will centralised media buying become as prevalent in the US as in European countries like France and Spain? If so, how will it affect the media departments of traditional agencies and the US media specialists, like Western?

On the surface it seems bizarre that it has taken so long for centralisation to become an issue in the US. The trends that are driving the centralisation of the European market – fragmentation of Television audiences as new media, such as satellite TV channels, take viewers away from established stations – are, after all, mnch more advanced in North America.

None the less, most US advertisers still favour the traditional approach of delegating responsibility for media buying to their advertising agencies, althongh some adopt the "agency of record" system whereby one agency handles the buying for certain brands, or particular types of media, and other agencies handle the rest. As a result, specialist media buying companies, such as Western, represent less than 6 par cent of the $128.6bn advertising market.

The main reason for this is that large US advertisers tend to exert considerable influence over their own media buying. Many companies have sizeable media departmants which negotiate directly on upfront, or advance, deals with the big three US television networks, ABC, CBS and NBC.

This has made it very difficult for media specialists and smaller agencies to break into the $9.4bn network TV market. Instead they have had to concentrate on the $7.9bn spot, or local, television market.

Moreover, newspaper and magazine advertising has, until recently, been virtually non-negotiable. Again this has militated in favour of the big advertisers able to strike upfront deals with publishers.

As a result there has been *little pressure on companies* to review their media buying arrangements. It has also been virtually impossibla for the media specialists to attract national clients. There are some exceptions. Western in Los Angeles works with Disney, the entertainment group, and Dewitt Media in New York for Reebok sportswear. But most media specialists deal with local advertisers, or act as the buying department of small and medium agencies.

Pressures of recession

Now the market is changing. First, the power of the networks has been eroded by the growth of new media such as Fox, Rupert Murdoch's network, and cable stations like Ted Turner's Cable News Network. The new unwired networks, groups of local TV stations which sell their advertising jointly as unofficial networks, are also competing for national revenna against the big three networks.

Second, financial pressures of the recession are prompting newspaper and magazine publishers to be more flexible about negotiating their rates. This trend, combined with the networks' vulnerability, is making it easier for other media buyers to compete against large agencies in the *national advertising market.*

Moreover, the recession is forcing US companies to scrutinise every aspect of costs. Several companies have identified media buying as an area of potential economy and have centralised their buying through a single unit.

"Advertisers are much more media savvy," says Beth Rockwood, director of media planning at Young & Rubicam, the New York agency. "The market is more complex and there is enormous pressure on costs."

So far the new consolidated accounts have gone to advertising agencies, rether than media specialists. Last month Nestlé appointed McCann-Erickson to handle the $250m media buying for its foods division, Grand Met gave its $200m network TV account to D'Arcy Masius Benton & Bowles and Warner-Lambert, the consumer prodncts company, consolidated $200m of broadcast buying into J Walter Thompson.

The critical question is how many more major advertisers will follow suit. "All it will take is for a few more big companies to consolidate their media buying and the others will scramble," says John Perriss, chairman of Zenith Media Worldwide, the media arm of the Saatchi group.

In Europe the large agencies have responded to the growth of centralised media buying by *creating central buying units*, such as Zenith, or by forming buying groups, like The Media Partnership, which includes the agencies owned by WPP and Omnicom.

However, it is far from clear that such a response would work in the US. Clients in the US tend to be more sensitive about potential conflict if agencies handle more than one account from the same product sector. Moreover, US media discounts are not allocated on an agency basis, thereby limiting the benefit to be gained from bulk buying power.

"I just do not see something like The Media Partnership working here," says Richard Kostyra, executive vice president of media services at J Walter Thompson, one of WPP'a agencies.

The big imponderable is how powerful the US media specialists will become. There are signs that major advertisers are taking them more seriously. Earlier this month when Isuzu, the Japanese car company, withdrew its $80m advertising from the Della Femina McNamee agency, it immediately handed over responsibility for media buying to SFM, a New York specialist.

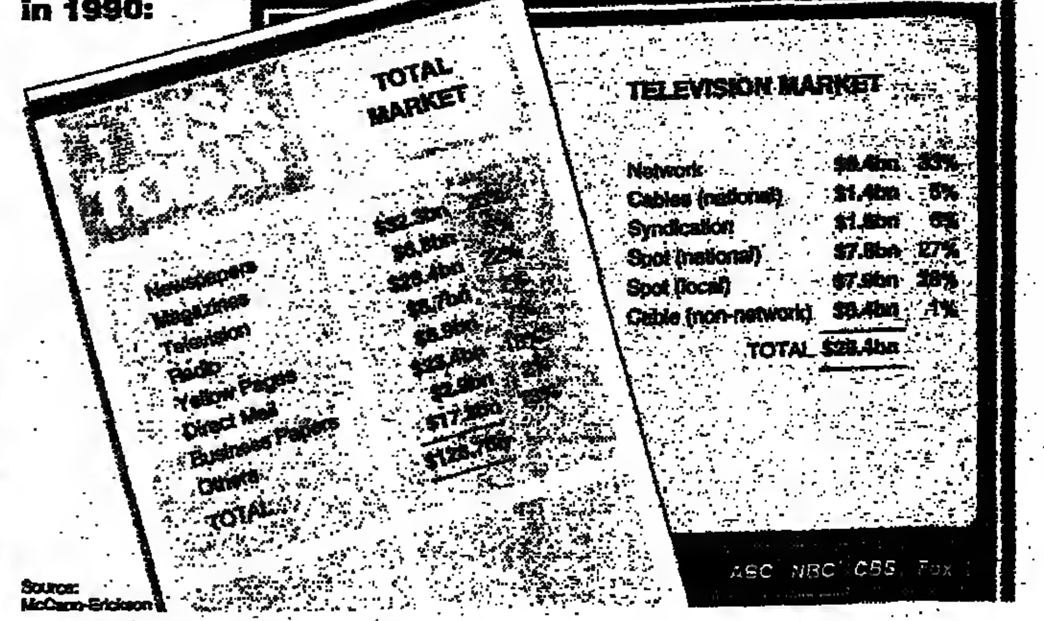
Moreover, financial pressure on the advertising industry is now so intense that a growing number of small and medium-sized agencies may decide to close their media departments and contract buying out to the specialists.

The specialists would then almost certainly become more powerful within the US media market. In the short term this could make them more competitive against the large agencies. In the medium term it could becoma far easier for European buying specialists, such as Carat and CIA Group, one of the biggest UK buying businesses, to expand into the US by acquisition.

All in all the pace of change in the US media market seems set to accelerate, although it remains to be seen how dramatic the change will be.

"One thing is for sure, more companies will consolidate their media buying," says Richard Kostyra of JWT. "In the near future I do not see a major shift away from the agencies. But in the long term, who knows?"

US advertising in 1990:



A little knowledge can be a useful thing

Andrew Jack reports on consumers' ability to make 'responsible' purchases

The sleeping consumer is beginning to stir. Companies are having to respond as their customers start to take more than just price and quality into account whan selecting their purchases.

The fad for healthy eating, for example, has forced manufacturers to put details of ingredients and additives onto packaging, as well as stimulating a vast range of new products from low fat spreads to bread for slimmers.

Consumers are also beginning to demand that the companies from which they buy behave in a socially responsible manner. As a result, there is now a niche for cosmetics not tested on animals, for example; ethical funds have been set up for people who want to invest in organisations which operate in ways that do not grate with the investors' political or environmental views.

Changing Corporate Values, compiled by New Consumer, a research group, is an attempt to fuel this trend among customers. Individuals, it argues, should be given information to allow them to choose between the products they buy, selecting those made by companies whose practices they find most *acceptable, thus penalising others.*

"The market is well understood as a powerful mechanism for enabling individuals to express their preferences in a decentralised way," thc authors say. "*It also* acts as an economic vote," and cncourages prodncers to provide more of the product or service of the consumer's choice.

UK spending on personal goods and services amounted to more than £345bn during 1990, of which only a small fraction went to monopolies or other suppliers which offered no choice.

So the potential power of socially conscious consumers' *exercising their* "economic vote", is considerable. If just a small fraction of people modified their buying patterns, it could have tremendous influence on products and the policies of the companies producing them.

The beauty of this approach is its pragmatism. While the book highlights issues which might be characterised as left-wing or anti-capitalist, it operates in tune with the economic model of perfect competition: that individuals should have complete information.

The vast majority of the text is given over to profiles of 128 companies operating in Britain, whose sales account for nearly 40 per cent of consumer expenditure. It avoids monopolies, businesses in highly fragmented markets, and certain specialist sectors like financial services.

Each company gets a few pages, with short descriptions under a series of headings: industrial democracy, equal opportunities, political involvement, military sales and so on.

At the start of each profile is a series of twelve boxes which *rate the company in categories* such as disclosure of information, advancement of women and ethnic minorities, community involvement and environmental impact.

Several interesting trends emerge. *US-based businesses* score more highly than their British counterparts on the different responsibility ratings. They were also more willing to respond to requests for information.

So while Body Shop and the Co-operative Movement both do well, General Motors, Exxon and du Pont rank equally highly. At a rough estimate, Kellogg, Scott Paper and Avon Products do best of all. Meanwhile some of the lowest scoring companies listed no longer exist, including Lowndes Queensway, and Hudson Place Investments (parent of International Leisure Group).

There are *obvious limitations* in these rankings. The detailed criteria behind each tick or cross are not given in the book. The condensed descriptions inevitably omit a great deal and some information – much of it trawled from newspapers and research reports – is already out of date.

The category dealing with disclosure of information is perhaps the most unfair. Companies score badly because they refused to co-operate with New Consumer's research. Many argue that they are bombarded daily with requests from different organisations, and will never have the information or time to complete each one.

Another problem is that the classification rates the parent corporation, rather than the activities of its UK subsidiary, although the latter may be highly autonomous and very different in character.

How effective the book will be in persuading consumers to switch their purchases remains to be seen. Brand loyalty, quality, lower prices or a set of "irresponsible" practices which are not directly connected to the product in question may all prevent the conscientious consumer from exercising his or her economic vote.

Similarly, even when consumers change their buying habits, it may not always be because they disapprove of the manufacturer's policies. In general, the power of the consumer has generally been most effective when used collectively, through consumer boycotts for example. Without such a campaign, the message might well be lost.

Nevertheless, as an attempt to compile comprehensive information on corporate responsibility and make the consumer more aware of how companies behave, Changing Corporate Values is welcome. The more concise paperback version - due out in September - should provide a useful companion on trips to the supermarket.

Richard Adams, Jane Carruthers, Sean Hamil and New Consumer. Kogan Paul, £48.

CINEMA

Exposed: linguistic jokers and witch hunts

ROSENCRANTZ AND GUILDENSTERN ARE DEAD
Tom Stoppard

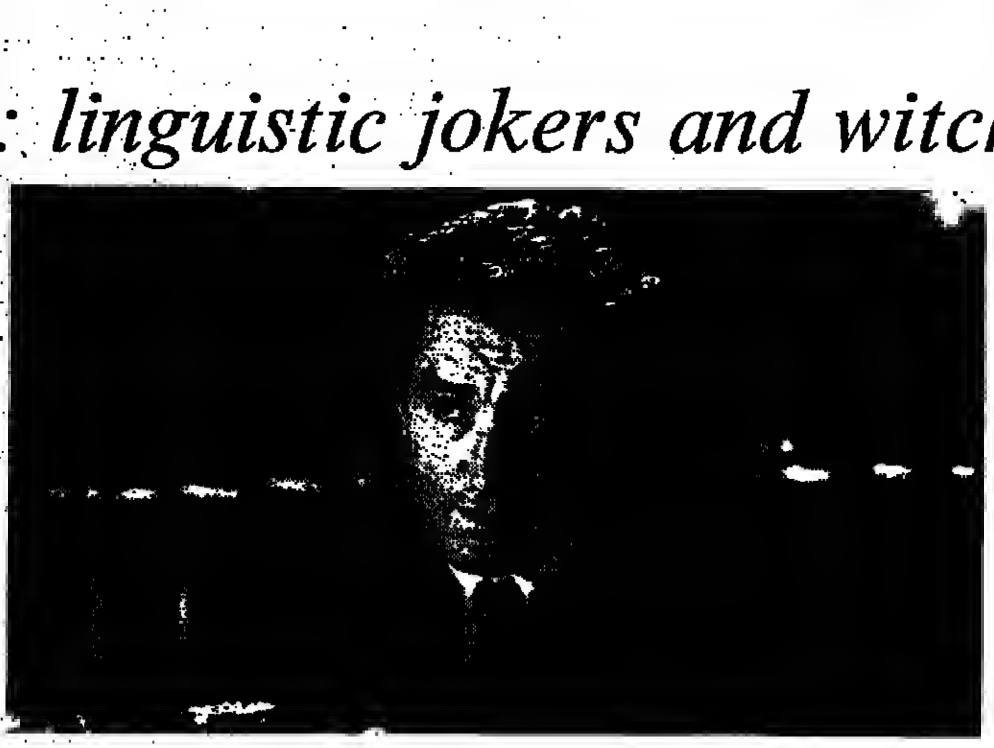
GUILTY BY SUSPICION
Irwin Winkler

MERMAIDS
Richard Benjamin

LIFE IS CHEAP BUT TOILET PAPER IS EXPENSIVE
Wayne Wang

WHITE FANG
Randal Kleiser

PROBLEM CHILD
Dennis Dugan



Atonement for McCarthyism: Robert De Niro in 'Guilty by Suspicion'

When a play becomes a film, one of two bad things can happen. The work can sit there inert and paralysed, Mickey-Finned by the proscenium format in which it was born. Or it can be spuriously "opened out" in the belief that a play becomes cinematic by showing characters getting in and out of taxis or having their vital conversations on a rollercoaster rather than in the kitchen-dinette.

Tom Stoppard, filming his own play, has opened ont *Rosencrantz And Guildenstern* in the same way an inept photographer might open ont a reel of film after removing it from the camera. By exposing the work to the daylight of real forests and castles (in Yugoslavia, standing in for Shakespeare's Denmark), he destroys all its delicate, vivid originality of colour.

The uninflected naturalism of Stoppard's early *al fresco* scenes is disastrous as a stylistic habitat for the hothouse dialogues. Bravely though Gary Oldman and Tim Roth as R and G bat to and fro the non-sequiturs and just-about-sequiturs, we wonder what these dandefied linguistic jokers are doing in what looks like a come-to-Yugoslavia travelogue. And when we reach the castle after the sylvan prelude, the film decides to keep rushing around its rooms like some demented sightseer who believes that to stand still is to die.

Some of the St Vitus shenanigans are funny: notably the recurring joke of Oldman absent-mindedly making great scientific breakthroughs as he walks and talks. Bnt mostly they prove that gnomic, double-take dialogue does not knit well with with perpetual-motion staging.

Stoppard's play was a meditation on marginality: a *Waiting For Godot* for two of life's eternal extras. It thrived on a cul-de-sac setting cut off from the outside world. The Player King, here played with pixillated charm by Richard Dreyfuss, was the duo's only mediator with that world: a professional impostor who made their sense of isolation even more paranoid. By giving his heroes the freedom of the castle, nay of the country, Stoppard's film vitiates everything that made their dilemma comic and gave their self-questionings a cornered poignancy.

There are some consolations in the new-minted marginalia. Stoppard creates a lovely comic impromptu on board ship, with R and G rescued from murder hy a collision with a pirate galleon. And Stanley Myers's surreal credit-titles music, for piano, guitar and howling dog, sets early hopes high. But for the most part one is left pondering Stoppard's reported surprise at how easy it was to make a film. How would he know? He has yet to make one.

Nigel Andrews

Guilty by Suspicion is a powerful piece of cinematic atonement, a rare attempt by Hollywood to deal with its darkest hour, the McCarthy witch hunt. Irwin Winkler, the veteran producer here making his debut as writer/director, proves himself to be worthy of this difficult task, teaming with Robert De Niro to fashion a coherent, honest film about an ambiguous, deceitful era.

De Niro plays David Merrill, a driven young director about to start filming a major project for Darryl Zanuck. All he needs to do is kowtow to the dreaded House Un-American Activities Committee, naming the names of a few friends in order to show himself to be politically correct. When he baulks, Merrill's career is abruptly halted. Hounded mercilessly by tbe F.B.I, be watches in helpless rage as family and friends fall apart. Inevitahly, the subpoena comes, forcing him to choose between honor and his own skin.

Winkler skillfully exposes the deceit inherent not only in McCarthy's headhunters hut also in the Hollywood big wigs who sold out some of their most talented people to please the Committee. Though somewhat lacking in nuance, the film is fuelled by a cogent script and efficient direction. De Niro is superh, less mannered than normal bnt just as powerful. He has a remarkable scene in which, allowed to direct a schlock western after months in the wilderness, he establishes Merrill's genius and passion in a few brief moments. His final confrontation with the Committee is a marvel of controlled heroism, utterly free of grandstanding. Also fine are Annette Bening as Merrill's saintly wife and Patricia Wettig as a drunken actress. And, in a bit of ironic casting that must have been most gratifying, Sam Wanamaker, himself hlacklisted, plays a seedy defence lawyer in cahoots with McCarthy's lackeys.

★

Mermaids is the type of film that sinks or swims on the backs of its characters, here in the promising form of Cher, Winona Ryder and Bob Hoskins. Unfortunately, as the title suggests, they never really become buman, making for a film that flounders hopelessly in a sea of sentiment.

Cher plays Mrs Flax, an offbeat, rebellious woman about five years ahead of her time (1963). Ryder is her stuffy teenage daughter who fights her carnal desires with plans to hecome a Catbolic saint. Mother and daughter squahble continually, especially when suitor Hoskins tries to make a family out of them. Director Richard Benjamin opts for a leisurely, hands-off approach to all of this, letting his sctors interact almost randomly. When he achieves the odd skillful touch it comes as a shock, such as th e beautiful scene when Ryder recalls watching a solar eclipse with her father.

Generally, however, it's the actors who rule, and they make a mess of it. They have traits – Cher cooks nothing bnt hors d'oenvres, Ryder wears wellies instead of saddle shoes – but no souls. Cher lacks the earthy nobility that marks her best work. Sbe speaks in sancy aphorisms rather than real dialogue. Ryder doesn't seem to know whether or not to take her character seriously, playing her as a winsome, sexually budding teenager one moment, then showing up in the next scene as a flake who wants to be Joan of Arc in bobby socks. Hoskins mugs heroically hut his charm seems as superfluous and forced as the film's needlessly melodramatic ending.

★

Wayne Wang's *Life is Cheap ... But Toilet Paper is Expensive* is not a film for the sqneamish. Severed hands, graphically slaughtered dncklings, porno photos of pregnant women and a meal of human faeces feature prominently in this hizarre trip through modern Hong Kong. Viewers who can stomach these excesses, however, are in for a strangely engrossing slice of cinema virtuosity from one of America's most inventive filmmakers.

Wang's film opens with a nameless hero (Spencer Nakasako) arriving in Hong Kong with a suitcase handcuffed to his wrist. His job is to deliver the goods to a Triad boss, a task complicated by a ceaseless array of weird characters and bizarre incident. Plot is continually set aside to provide glimpses of city life, including a sales pitch by a prostitute in a gas mask and an interview with real-life billionaires in front of their pink Rolls Royce. Wang's digressive, quasi-documentary style suits his subject city well, though he has the good sense to pick up the threads of his story at the end, when our hero loses the suitcase, gets the girl (she's a lesbian) and is eats that fecal feast to escape. Tasteless, perhaps, but certainly bard to ignore.

★

White Fang seems to have been made in a time warp, springing from the golden era when Disney made handsome, wholesome, enjoyable adventure films for youngsters. This faithful adaptation of Jack London's story of s boy and his wolf in the Yukon Gold Rush perfectly captures not only London's rough and resdy world, but also a long lost era of moviemaking for young peopla in which simple storytellin g and reassuring values filled the screen. Even the pit bull who savages White Fang leaves no scar. One has to wonder what a generation raised on Speilberg's cosmic dreams and Bart Simpson's bad attitude will make of all this.

★

They'll probably prefer *Problem Child*, the story of a seven-year-old who terrorises his adoptive parents. Junior (Michael Oliver) is an elfin terminator who ravages cats, destroys birthday parties and bludgeons tormentors with a baseball bat. The first ten minutes are fairly funny, but after that director Dennis Dugan resorts to the *Jon Landis theory of comedy* – when the going gets tough, wreck some cars. The film's final image is a close-np of a pig passing wind. A decade ago Hollywood decided that comedy should be geared to the seven-year old intellect. Now they're making movies about seven-year-olds. One trembles at what's to come next.

Stephen Amidon

Waiting for the Psychic

GATE THEATRE

One hundred years on from Chekhov, four women wait hopefully in an apartment for something to bappen. But this time around, it does. The Ermolov Theatre brings Shadiman Shamanadze's 1986 *Waiting for the Psychic* to the Gate in an exciting and explosive production. The Ermolov, founded by the actress Maria Ermolova, has presented classics to Moscow since 1926.

The scene, Tbilisi, Georgia. Tamriko and her flighty younger sister Ketino await the arrival of a famous psychic. Two friends drop in: a bullying teacher called Daredzhan, and a young air-headed museum worker called Tika. The evening begins slowly, as Ketino's boyfriend telephones and she prepares to go out. The longer they wait for the psychic, the more champagne they drink. Tika imagines herself both married and pregnant, and starts to hallucinate. *Ketino tries* to leave to see her boyfriend, but her sister has locked everyone in.

Then the evening takes off: screams, accusations, fights. After Ketino emerges from the kitchen brandishing an axe, she has to be tied up. Eventually *Ketino goes out, but soon returns*. Tika leaves in s drunken stupor, falls down the stairs, and hobbles back. Finally, Ketino plays a tape of the psychic's seances; and this calms them into a trance. When they emerge from that, they behave as if nothing had happened.

Shamanadze's play makes the point first that life is not a rehearsal. The older women lament over lost opportunity, negotiate an acceptance with their condition, and try to prevent their younger companions from repeating their mistakes. Secondly, it shows people refusing to take charge of their own lives, waiting for the psychic to tell them of the future instead of carving one out for themselves. Thirdly, as the domestic violence escalates, the tragedy turns into a nasty farce, curtailed only by the psychic's vicarious intervention *on tape, like a dose of Huxley's Soma.*

Shamanadze leaves the action open to wide metaphorical interpretation. In post-perestrioka Georgia, the search for truth has become the search for identity. The psychic represents the women's undefined yearning for political, economic and personal fulfillment; the apartment their beleaguered social situation; and their champagne party a kick at misery. The glcomy conclusion returns the women to bumdrum existence.

Waiting for the Psychic is performed in Russian; there is no translation, but the programme helps. The director, Faina Verigina, orchestrates the action precisely; and curiously - if one has no Russian - one notices the non-verbal acting much more acutely: the laughs, frowns and gestures of those who are not speaking.

This is a virtuoso team performance, but Natalia Malyavina (Tamriko) and Valentina Ivanova (Daredzhan) are exceptional, catching their characters on the cusp of middle age, just as dreams cede to realities.

See *Waiting for the Psychic* if you can. Don't be deterred by that lyric from *Girl Crazy*: "With love to lead the way, I've found more clouds of grey, Than any Russian play, Could guarantee." The Gershwins never mentioned plays from Georgia.

Andrew St. George

Le nozze di Figaro

VIENNA FESTIVAL AND GLYNDEBOURNE

At last Vienna has something worthy of the Mozart bicentenary. Before Jonathan Miller's new staging of *Le nozze di Figaro* at tbe Theater an der Wien, there had been precious little to celebrate. But Miller has had a triumph – and Vienna, unusually, has acknowledged it from every quarter. His schievement (how simple it sounds, yet how elusive in practice) is to have presented *Figaro* as a living organism of 18th century social politics – not frozen in the past, dry or analytical, but pulsating with humanity, humour and historical authenticity.

The setting (decor by Peter Davison) is s château of the Ancien Régime, sepia-coloured, sparsely-furnished and evidently in oeed of refurbisbment. The costumes (by James Acheson, who also worked on the film *Liaisons Dangereuses*) are inspired by the 18th century French painter Chardin – corsetted wsists and white caps for the women, breaches and riding coats for the men. This is the visual context for s day in the life of the Almaviva housebold – a place with a past and a present, an upstairs and downstairs, where life goes on beyond the immediste foreground, where seduction, conspiracy and confrontation are part of daily routine.

All this is established in the opening scene, set in a back-room clnttered with tailor's dummies, wig-stands and a *heap of ironing. The exchanges* of Figaro and Susanna – eacb competing for tbe other's attention while preoccupied with their own tasks – suggest s relstionship that bas hed ample time to settle into a domestic pattern. At the end of the act – in the production's most memorable *coup de théâtre* – we are led round the stage turntable, through corridors and antechambers, past cleaning ladies and doormen, to tbe bed-chamber of the Countess – wbo hids good-night to her children in the orcbestral introduction to "Porgi, amor". When the Count bursts in, his muddied apparel and retinue tells us be is fresh from the hunt. Social distinctions abound: the Countess dictates her letter from the comfort of an armchair, while Susanna bas to write from a standing position, leaning over a pile of books. The peasants are awkward rustics, overawed hy grand surroundings. And the Count clearly has Figaro on the hop.

Miller builds on this subtext with fluent, often uproarious ensemble and sharp character portrayal. The recitativas nnfold with the snap and crackle of realistic conversation. The imbroglios of the second and fourth acts are deftly handled, even if the steps under the châtean façade make an implausible setting for the night-time assignations of the finale. There are mannerisms – the way the Count fidgets with s loose strand of hair, or Don Curzio's stammer, which *is fast* becoming a *Figaro* cliché. But they are few and far between.

In an ideal world, one would match this visual authenticity with an original instrument orchestra, whose textures and timbres could *be heard* to advantage in the raised pit of this lovely, intimate theatre. The Vienna Philharmonic offers the very best alternative. The playing under Clandio Abbado is Viennese Mozart tradition at its best – snappy and sinewy, with frequent shafts of light in phrasing and balance. Only the occasional squareness of tempo suggests Abbado is still working his way into the score.

As the Count, Ruggero Raimondi dominated the performance with his comic gifts, piercing eyes, roving hands and masterful verbal inflections. Marie McLaughlin, in beautiful, blooming voice, was the vivacious Susanna. Lucio Gallo's Figaro was crisp, efficient and likahle. Cheryl Studer was not flattered by the Countess's pudding of a costume, and is still sbort of confidence in her two arias. Gabriele Sima was the aristocratic, adolescent and credibly masculine Cherubino. A slippery, camp Basilio from Heinz Zednik, Rudolf Mazzola's crusty Bartolo and Margarita Lilowa's Marcellina made up a cast of uniform strength.

Andrew Clark

Glyndebourne offers the six great Mozart operas this summer, two of them, *Cosi fan tutte* and *La clemenza di Tito*, in new productions. The *Figaro* that opened the festival on Tuesday is not, unfortunately, a new one but a revival of the staging tbat Peter Hsll contrived two years ago with designs by John Gunter; Hall having severed his connections with Clyndebourne, it has been rehearsed this time by Stephen Medcalf.

Medcalf has been able to do little with the lcok of the thing, its utter lack of sense of place, or social focus – where for instance has the opera been set: in Seville or, as the sbutters suggest, just some generalised Mediterranean Never-Never land? – and bas concerned himself with tightening up the business, while remaining reasonably faithful to Hall's original ideas. That leaves a lot hanging fire: the first act is desperately unfunny, clogged up with spurious detail, the last s mess: everyone comes on, sings his or her aria on the token green sward, and disappears into the shadows. The central acts are tanter, and show some signs of *pairing music and sction*, but tbe dramstic temperature never rises above tepid.

It was this prodnction in 1989 that hrought authenticity to Glyndebourne; the Orchestra of the Age of Enlightenment *replaced the London Phil*harmonic in the pit, and they do so again for the revival. (They are also booked for the new *Cosi*, which opens tomorrow.) Period instruments have to work hard against this dry acoustic; they lack the power to project of tbeir modern counterparts. But the gains in textural clarity, rbythmic articulation and colour (such bassoon lines, such precise horns!) are immense, and Andrew Dsvis conducts with decent briskness and style, though he does not command the dramatic scale of each act in a way that might compensate some of the production's sbortcomings.

But tbere is still tbe mismatch between the period orcbestra and tbe more hit-snd-miss vocal style that Max Loppert noted here in his review of the premiere. Ornamentation is rationed to an appoggiatura here and there, until the reprise of "Dove sono" suddenly blossoms into full fig. Most of the voices are light enougb, though, to take full advantage of the slimmed-down sound.

The best of the cast, by a good measure, are the Figaro of Alan Opie and Susanna of Alison Hagley. In a productioo that, if it does anything at all, does it over the top, Opie's intelligent undemonstrative portrayal runs the risk of seeming pallid; but it is thoroughly worked through, every gesture means something, and is sung with plain, commoosense accuracy. Hagley was Barbarina two years sgo, and bas graduated via the Glyndebourne tour to become a winning and stylish Susanna, quick to react, with a fine sense of comic timing wben she gets the chance she sings with relaxed polish and a sense of scale. Her approacb is matched to the orchestra better than anyone's.

Alan Opie and Alison Hagley at Glyndebourne

Jeffrey Black's malevolent Count pushes every phrase too insistently, as if anger and frustration had to be stamped on everything he sings. The pale, rather indistinct Countess of Gunnel Bohman only came into her own with "Dove sono", hut did so with enough presence to suggest that in a more sympathetic staging she migbt he fill tbe role mucb more convincingly. Marianne Rorholm repeats her disturbingly credible Cheruhino; Gaynor Morgan is a pert Barbarina.

This production uses a full text, witbout ever meking a virtue of it, so that the lively Marcellina of Susan Bickley and creepy Basilio of Ugo Benelli both get their fourth-act arias but can add little to the dramatic sum total. The Bartolo is Jules Bastin, a distinguished singer making his Glyndebourne debut, but nevertbeless a strange piece of casting; with gestures that would reacb the back of the Opéra Bastille, he comes on far too strong in this context. The best of the singing decisively outweighs the worst, but the same cannot be said, alas, for the production.

Andrew Clements

INTERNATIONAL ARTS GUIDE

TODAY'S EVENTS

■ BERLIN

Staatsoper unter den Linden 19.00 La traviata. Tomorrow: Michael Gielen conducts Pelleas et Melisande. Sat: Die Zauberflote. Sun: Les contes d'Hoffmann (2004 762)
Komische Oper 19.30 Jochen Kowalski sings title role in Giustino. Tomorrow: Cav and Pag. Sat: open day from 10.00, with guided tours, public rehearsals and exhibition of costumes, plus an evening performance of Entfuhrung. Sun: Zauberflote (2292 555)
Deutsche Oper 19.30 Rebecca Copley sings title role in Manon Lescaut. Tomorrow: concert celebrating 200th anniversary of Berlin Sing-Akademie. Sat: Trovatore. Sun: Tristan und Isolde with Gwyneth Jones and Rene Kollo (3410 249)
Schauspielhaus 20.00 Miltiades Caridis conducts Berlin Symphony Orchestra in Strauss' Also Sprach Zarathustra and Marcel Dupre's Organ Concerto, with Heiner Kuhner, also tomorrow and Sat. Sun at 17.00: Bach's Matthew Passion (2272 261)
Philharmonie Kammermusiksaal 20.00 Carlo Maria Giulini conducts Berlin Philharmonic Orchestra in Mozart's last two symphonies. Repeated tomorrow, Sat and Sun at 11.00 (2614 383)

■ CHICAGO

Orchestra Hall 20.00 Daniel Barenboim conducts Chicago Symphony Orchestra in Richard Strauss' Don Quixote and Beethoven's Violin Concerto, with Isaac Stern. Repeated tomorrow at 13.30, Sat and next Tues. Tomorrow at 19.30 Dave Brubeck *Quartet* (435 6666)

■ THE HAGUE

Dr Anton Philipszaal 20.15 Janos Furst conducts Residentie Orchestra in Haydn's Symphony No 65 and Roussel's Third Symphony, with Gil Shaham soloist in Brahms' Violin Concerto, also tomorrow (3609 810). The programme is repeated on Sat in Utrecht

■ LONDON

MUSIC AND DANCE
Covent Garden 19.30 David Bintley's new full-evening ballet Cyrano with a score commissioned from Wilfred Josephs, and a cast including Irek Mukhamedov and Viviana Durante (240 1066)
Coliseum 19.30 Charles Mackerras conducts David Pountney's production of The Cunning Little Vixen, with Lesley Garrett in title role and Norman Bailey as The Forester. Tomorrow: Stephen Oliver's new opera Timon of Athens. Sat: Peter Grimes (836 3161)
Royal Festival Hall 19.30 Montserrat Caballe sings opera arias. Tomorrow: Charles Mackerras conducts Dvorak's New World Symphony with London Philharmonic. Sun: Gennadi Rozhdestvensky conducts BBC SO in Elgar's Enigma Variations, plus works by Britten and Prokofiev (928 8800)
Queen Elizabeth Hall 19.45 Leon Lovett conducts English Baroque Choir and Orchestra in all-Mozart programme. Tomorrow: Hariprasad Chaurasia plays Indian flute music. Sat: Alban Berg Quartet plays *Bartok and Mozart* (928 8800)
Barbican 20.00 A Night in Seville: flamenco dance musical, also Sat. Tomorrow: Riccardo Chailly conducts Royal Concertgebouw Orchestra in Bruckner's Fifth Symphony. Sun: Henry Mancini in concert (638 8891)
THEATRE
Popular West End shows include Carmen Jones, Oscar Hammerstein's musical update of Bizet, in a lavish production by *Simon Callow (Old Vic)*; The Homecoming, a polished revival of Pinter's disturbing comedy (Comedy); Caryl Churchill's play Top Girls, directed by Max Stafford-Clark (Royal Court); Matador, a new musical directed by Elijah Moshinsky and starring Stefanie Powers (Queens); and Anouilh's The Rehearsal (Garrick). Phone Theatreline: Plays 0836 430959 Musicals 0836 430960 Comedies 0836 430961 Thrillers 0836 430962

■ MUNICH

Staatsoper 20.00 Valery Gergiev conducts Johannes Schaaf's new production of Boris Godunov, with a cast led by Paata Burchuladze, Kenneth Riegel, Kurt Moll and Astrid Varnay, also Sun. Tomorrow: Gerd Albrecht conducts Tchaikovsky's The Maid of Orleans. Sat: Die Zauberflote (221316). Events in the Philharmonie this weekend include a Munich Philharmonic Orchestra concert with Sergiu Celibidache on Sat, and a Philharmonic Chamber Orchestra concert on Sun (48098 614)

■ NEW YORK

Metropolitan Opera 20.00 American Ballet Theatre production of La Bayadere. Tomorrow and Sat: triple bill including Kenneth MacMillan's Concerto (362 6000)
New York State Theater 20.00 NY City Ballet in works by Balanchine, Peter Martins and Robbins/Tharp. Also tomorrow, plus matinee and evening performances Sat and Sun (870 5570)
Avery Fisher Hall 20.00 Zubin *Mehta conducts New York* Philharmonic Orchestra in Guerrelieder, also tomorrow and next Tues. Soloists include Susan Dunn, Gary Lakes and Hans Hotter.

These are Mehta's final performances as music director of the Philharmonic (874 2424)

■ PARIS

Chatelet 20.00 John Eliot Gardiner conducts Lluis Pasqual's new production of Die Entfuhrung aus dem Serail, with the English Baroque Soloists, Monteverdi Choir and a cast led by Luba Orgonasova as Constanze. Runs till June 2, with next performance on Sun. Tomorrow: William Christie conducts concert performance of Alcione by Marin Marais (1656-1728), with the chorus and orchestra of Les Arts Florissants. Sat: Chailly conducts the Concertgebouw Orchestra in Bruckner's Fifth Symphony (4028 2840)
Salle Pleyel 20.30 Semyon Bychkov conducts Orchestre de Paris in Cinderella music by Rossini and Prokofiev, plus Mozart's Piano Concerto No 20 with Radu Lupu. Repeated tomorrow and Sat (4563 0796)
Centre Pompidou 20.30 Mark Foster conducts Ensemble InterContemporain in new works by Martin Matalon, Joel-Francois Durand and Alejandro Vinao, repeated tomorrow (4260 9427)
Théâtre de la Ville 20.30 Shijime, Japanese ballet by Ushio Amagatsu, also tomorrow and Sat (4274 2277)
Théâtre des Champs-Elysees 20.30 Mark Morris Dance Group, also tomorrow and Sat (4720 3637)

■ ROME

Teatro dell'Opera 20.30 Katia Ricciarelli sings title role in Piccinni's Iphigenie en Tauride, also Sat and next Tues. Tomorrow and Sun: Rigoletto with Juan Anderson and Leo Nucci (463641)

■ STOCKHOLM

Royal Opera 19.30 Leif Soderstrom's production of Carmen, sung in Swedish. Tomorrow and Sat: operetta concert. Sun: Drottningholm season opens with first performance in modern times of J.C.F. Haeffner's Electra, conducted by Thomas Schuback, with Anita Soldh in title role (248240)

■ STRASBOURG

Palais des Congres 20.30 Theodor Guschlbauer conducts Strasbourg Philharmonic Orchestre in Schumann's Fourth Symphony and Roussel's Petite Suite, with the Labeque Sisters soloists in Martinu's Concerto for Two Pianos. The programme is repeated tomorrow (8837 6777)

■ VIENNA

Staatsoper 19.00 Ivan Fischer conducts Die Entfuhrung aus dem Serail, with a cast including Robert Gambill as Belmonte. Tomorrow and Sun: Arnold Oestman conducts Ponnelle production of Lucio Silla, with Edita Gruberova, Ann Murray and Thomas Moser. Sat: Nikolaus Harnoncourt conducts Idomeneo (51444 2960)
Konzerthaus 19.30 Arditti Quartet plays new string quartets by Friedrich Cerha, Thomas Pernes and Michael Mautner, also tomorrow. Sat: Georges Pretre conducts Vienna Symphony Orchestra in Mozart and Beethoven (7124 6860)
Jugendstiltheater 19.00 Vienna Festival production of Die Zauberflote. Runs till June 1 (586 1676)

■ WASHINGTON

Kennedy Center Concert Hall 20.30 National Symphony Orchestra Pops with Johnny Mathis, also tomorrow (467 4600)

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2130 (Thurs) Financial Times Business Weekly

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Superchannel
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Pipe dreams in Brussels

SMOKING IS a health risk and should be discouraged. The medical evidence against the habit is so overwhelming that there is widespread popular support for effective measures to curb tobacco consumption. However, the European Commission's proposed Community-wide ban on tobacco advertising is the wrong way to tackle the problem.

The EC has already agreed to prohibit such advertising on cross-frontier television and all 12 countries restrict it in domestic media. Yet these curbs and the means used to implement them vary: some countries have imposed total statutory prohibitions, while others rely on more selective limitations negotiated with the tobacco industry. Ms Vasso Papandreou, the social affairs commissioner, contends that such differences are incompatible with the Community's single market and wants the rules harmonised to outlaw all tobacco advertising except at the point of sale.

Her proposal is mis-conceived. First, it is too unwieldy to be workable. In seeking to curb "indirect" advertising by prohibiting the use of cigarette brands to promote other products, and vice-versa, it would create any number of grey areas and a field day for lawyers. Still more quixotic is the proposed ban on the display of brand names and logos at public and sporting events sponsored by tobacco companies. Consistency would require censorship of press and television pictures of events in non-EC countries where such practices are permitted.

Unconvincing efforts

Much the most serious objections, however, are that this is an area in which EC legislation has no valid role, and that Brussels' efforts to impose harmonisation risk distorting the Community's institutional procedures. The commission's efforts to justify its proposal as an attack on intra-EC trade obstacles – rather than on health grounds – are unconvincing. Rather, its choice of tactics seems inspired by opportunism, since Community rules demand that health legislation be endorsed unanimously by the Council of Ministers, while single market measures require approval by a qualified majority vote. Obviously, the latter avenue offers the commission a better chance of getting its way.

Mrs Papandreou argues that governments with the tightest restrictions on tobacco advertising could seek to enforce them by blocking imports of publications from other EC countries operating less stringent regulations. Such obstacles to trade, she contends, would be legal under Article 36 of the Rome Treaty. This entitles EC members to restrict or prohibit imports on grounds including public morality, order, safety and health protection, provided such measures are not arbitrary or disguised restrictions on trade.

Court challenge

Whether Article 36 could legitimately be invoked in such cases is debatable: attempts to do so would almost certainly face a challenge in the courts. A much more important point, however, is that the commission is unjustified in seizing on this article as a pretext for imposing EC-wide legislation. If some EC members choose to place tighter curbs on tobacco advertising than others they are entitled to do so, provided the rules are enforced even-handedly on domestic and foreign media. But that in no way justifies attempts by Brussels to harmonise regulations across the Community at the level of the most restrictive country – an approach which in any case directly conflicts with a guiding principle of the single market programme. The same arguments could be used to support an EC-wide prohibition on contraceptive advertising, on the grounds that such a ban exists in Ireland.

The issues underlying the tobacco advertising row have little to do with health, as the commission has tacitly acknowledged by its choice of tactics. The central question concerns the most appropriate level at which decisions should be taken in the Community. In this instance, logic and common sense dictate that decisions be left to individual EC governments. Brussels should recognise that using questionable methods to ram through legislation of dubious value is no way to advance integration.

How not to connect to BT

THE UK government's claim to have created the most open telecommunications market in the world is beginning to look exaggerated. Although most exclusive rights held by BT and Mercury Communications have been abolished, it seems that the fine print of the government's new policy may allow BT to squash its rivals.

The fine print concerns how much competitors should have to pay for interconnecting their networks to BT's. Interconnection matters because entrants will start off by building only partial networks and will thus have to rely on BT to pick up calls and deliver them to their final destinations. If the interconnection charges are set too high, BT's rivals will be competing with one arm tied behind their backs.

Earlier this year, Oftel, the telecommunications regulatory body, set out its proposals for how interconnection charges should be calculated. Following protests from the industry, Oftel has postponed a decision until next month. Although the issues are highly complex, a number of matters are clear.

First, it is unacceptable that an issue of such importance should be decided behind closed doors. Second, although Oftel has a hard task in picking the right figure, the damage to the public interest in erring in BT's favour would be greater than the reverse. If the charges were too low, rivals who are more inefficient than BT may be able to flourish because BT has been unfairly handicapped; but if interconnection charges are too high, no competition will develop.

Double danger

There is a double danger. If BT is able to overcharge its rivals for access to its local networks, they will not only be hurt through the higher charges. BT could also use the payments to cross-subsidise its own long-distance operations. Oftel's aim should be to create conditions in which efficient new competitors can come into the market. But as things stand, it may actually be erring in BT's favour. Not only will competitors have to pay BT for using its network; they will also have to pay an access charge to contribute to the losses BT incurs in running its local networks.

There seems little doubt that BT faces a deficit in running its local networks. Political pressures are responsible for BT keeping its line rental charges at below costs, so it is reasonable that competitors pay a fair share of the deficit. But the procedure by which Oftel is proposing to calculate this deficit – taking BT's line rental and connection revenue and subtracting its costs – looks flawed. The costs may be inflated because Oftel is relying on BT's own methods for allocating costs between its different services.

Thorough investigation

Moreover, the benefits may be widely underestimated. The gain to BT of having lines into 25m homes and offices goes far beyond its line rental income. Although its customers are not captive, they are more likely to choose BT than its rivals when they make long-distance calls and buy telecommunications equipment.

The best way of resolving the issue would be for Oftel to refer it to the Monopolies and Mergers Commission to ensure a thorough investigation. The MMC should not limit itself to accounting technicalities but should also examine BT's structure – in particular, the fact that it runs both local and long-distance networks. It is because the company operates in both parts of the market that excessive interconnection charges, if they were to be permitted, would be so likely to distort competition by permitting BT to cross-subsidise other parts of its business.

The US, which has a similar system of interconnection charges to the one Oftel is proposing, does not face the same problem. AT&T was broken up into one long-distance and several regional telephone companies, thus eliminating the possibility of cross-subsidy.

It would be too much to expect the government to force a similar divestment of BT when it is on the point of privatising a second tranche of its shares in the company. In the absence of such a restructuring, there is a real need for some independent assessment of such essential components of competition as the interconnection charges.

Rajiv Gandhi leaves behind both a fragile country and a party split more than ever by internal rivalries, reports **David Housego**

A nation stretched to breaking point

The assassination of Rajiv Gandhi undoubtedly confronts India with its greatest challenge since independence. The emotional shock of Mrs Indira Gandhi's death in 1984 was more intense – a woman prime minister killed in office, who had been the country's head of government for 14 years. But the challenge now is greater than it was six years ago because India is a more fragile country.

When Mrs Gandhi was killed by Sikh extremists, the only significant threat to unity came from the separatist movement in Punjab. Not only has the conflict in the Punjab deepened since then, but India also faces threats to its unity from separatist insurgencies in two other border states – Kashmir and Assam.

In other regions such as Tamil Nadu – where Rajiv Gandhi was killed – Maharashtra, Gujerat, Andhra Pradesh, and even parts of Bihar and Uttar Pradesh, there has been a welling up of regional sentiment that reflects growing resentment against the arrogance and impotence of central government. The problem of whether the union can hold together has never before been posed so acutely.

As with regionalism, so with religion. The surge in strength of Hindu revivalism over the past year and the triumphal campaigning during this election of the Hindu Bharatiya Janata party (BJP) have undermined in unprecedented fashion India's secular tradition of a nation that embraced both Hindus and Moslems.

The secular ideal – founded on the need to ensure communal harmony after Hindus and Moslems had massacred each other during the riots that accompanied partition and the birth of the Moslem state of Pakistan – is the most important legacy of the Nehru family.

But in the lifetime of Jawaharlal Nehru, India's first prime minister and Rajiv's grandfather, there were already many in the Congress party who believed that India should have declared itself a Hindu state. Only Nehru himself had the authority to hold them at bay. Both Mrs Gandhi and Rajiv, while maintaining the secular vision, yielded ground.

Rajiv Gandhi, in particular, allowed the foundation stones to be laid of the proposed Hindu temple at Ayodhya on a site that is part of a mosque. With that concession, the Hindu militant movements – the Vishwa Hindu Parishad and the Rashtriya Swayamsevak Sangh, which are closely connected with the BJP – realised that they had only to push harder for the door to open more.

The renewed Hindu-Moslem rioting in Meerut in Uttar Pradesh during polling on Monday, which left 19 dead, is a reminder of the increased polarisation between Hindus and Moslems, and a warning of the confrontation that could follow were the BJP to come to power.

In addition to these regional and religious tensions, conflict between castes has grown. The electoral campaign of former Prime Minister V P Singh, which was based on making the lower castes aware of their strength, was not as successful as he had hoped. But his proposal for increased job reservation in government for the poor has made the lower castes more aware of the potential the electoral system gives them for displacing the upper castes from their positions of power and privilege.

All these pressures have combined to cause significant strains on India's democratic system and have contributed to the violence that marked the election campaign and the first day of polling. More than 150 people have died so far.

In a further reflection of this malfunctioning of Indian democracy, the election commissioner cancelled polling in five constituencies only hours before Rajiv Gandhi's death. Such "countermanding" of an election because of widespread violence and vote-rigging has only occured once since independence in 1947.

The economy is only clouding the picture further. India finds itself in a worse balance of payments situation than ever before. Growing current account deficits, culminating in a record $10bn deficit in the last financial year, have resulted in an outstanding debt of $70bn-$80bn. Foreign exchange reserves have run out and the sharp decline in India's creditworthiness abroad, following postponement of the February budget and the current climate of political uncertainty has closed the door to further commercial borrowing abroad. The risk of a default has risen as Indians living abroad begin to withdraw their foreign exchange deposits and US commercial banks cut back their short-term lending.

Mr Gandhi's death itself injects fresh bitterness – though this will be kept somewhat out of the public eye until after his cremation tomorrow. The BJP, led by Mr L K Advani, is angry that the president and election commissioner decided in the early hours of yesterday morning – without consulting the political parties – on a lengthy postponement of the last two days of polling. Voting has been postponed from today and Sunday to June 12 and June 15.

An exit poll taken in Delhi during Monday's polling showed the BJP was heading for a comfortable victory in the capital. The party obviously believes that the Delhi result reflects the pattern in the Hindi-speaking belt of the north. Mr Gandhi's death – and the wave of sympathy that it could generate – have already changed the calculations for the remaining 306 seats of the 504 being contested.

But the BJP fears that the Congress could now use the period left until polling to accentuate this advantage. Above all it fears that with Mrs Sonia Gandhi, Rajiv's widow, who was yesterday officially installed as the Congress party president, it could achieve a landslide victory in the remaining seats on the basis of a sympathy vote.

The other area in which Mr Gandhi's death could inject fresh bitterness is within the Congress party itself. The party was once a mirror of India's history since independence – a "catch-all" party that embraced Hindus and Moslems, Indians from widely disparate castes and regions and which expressed the secular, modernising tradition that Nehru sought to establish.

Over the past 10 years, Congress has suffered from symptoms of decay and stagnation as the leadership lost contact with its local organisation. From a party of government, it has increasingly become a party of patronage and political spoils. Divisions have widened among its factional and regional barons. It has become much less successful in winning elections.

This was the situation Mr Gandhi would have faced in the aftermath of the poll. If his party had won fewer than 200 seats in the new parliament – as many observers believed possible – he could have faced challenges to his leadership which might have led to his being ousted. In the aftermath of the election, he would in any case have found it difficult to control party rivalries. His widow – born an Italian but now an Indian citizen – will be under even more pressure from powerful party bosses, who will try to manipulate her. After Rajiv Gandhi's assassination, the break-up of the Congress party remains a real possibility.

The morning after his death is very different from the aftermath of his mother's murder in 1984. If the edifice of India is to withstand the additional strains, a strong and stable government needs to emerge.

There are two ways in which this could be possible, though at the moment the prospects look bleak. The first would be a political re-alignment in the wake of the election that established an alliance of secular parties against the Hindu revivalist movement. This would bring together the Congress, the Janata Dal of Mr V P Singh (though probably without him) and Mr Chandra Shekhar's breakaway faction of the Janata Dal. Many in the Janata Dal are former members of the Congress party who have few policy differences with it. Such an alliance could expect support from the Communists, who are willing to back any party opposed to the BJP.

Mrs Sonia Gandhi would now be one obvious candidate for the premiership – though it is hard to see the other parties accepting her leadership. Mr Chandra Shekhar, who has proved to be a surprisingly successful prime minister, has also been negotiating to head such a coalition.

Though his party is likely to be virtually eliminated in the election, his personal stature is bound to increase in coming days while he continues to head the government and is exposed to world publicity during the cremation ceremonies. But opponents within the Congress party to his heading a new administration will want a prime minister to emerge from their own ranks.

The second possibility is that Mr Advani and the BJP are given a chance to form a government. This is what middle-class opinion in India – encouraged by the failures and opportunism of the existing parties – would increasingly like. But the BJP itself would prefer to wait until it has an absolute majority and has consolidated its position in the country.

The chances of the BJP emerging as the single largest party have, however, considerably diminished with Mr Gandhi's death and the expected swing in sympathy to the Congress party under his widow's leadership.

Whatever administration does emerge will be confronted with two immediate tests to its authority that will provide a barometer of political stability. The most immediate will be the need to prepare a budget on the basis of which negotiations for fresh borrowing can begin with the International Monetary Fund and the World Bank. The postponement of the last two days of polling means a further delay in the formation of a new government, and hence in the preparation of a budget. This is bound to further undermine bankers' confidence in India's creditworthiness.

To obtain the substantial sums that India now needs from the IMF and the Bank – about $5bn-$7bn – will require both substantial cuts in the budget deficit and the launching of a programme of longer-term structural reforms. The combined package – including a reduction in subsidies, moves towards privatisation and allowing companies more freedom to shed labour – will be difficult to put through politically. The Communists would feel unable to go along with it.

The other big test comes from the growing strength of the separatist movements in the Punjab, Kashmir and Assam. The army and paramilitary forces are now badly over-stretched in handling these insurgencies. Mr Chandra Shekhar has opened the door to political negotiations. But these will be impossible to pursue without a government in Delhi that feels able to make concessions and to do so in the context of a review of the structure of the federation that allows greater autonomy to the states.

As India's political and economic problems have intensified over the past two years, so the country has had to take a painful look at its place in the world. The Nehru view was of an India that was an important player on the world stage, whose policy of non-alignment made it a leader of the developing group of nations.

This vision was inherited by Mr Gandhi who also sought to project India as a leading regional power with a military capability to match. Mr Gandhi's abortive attempt to mediate in the Gulf war by flying to Moscow virtually on the day of the American attack on Iraq showed how far ambitions and reality have got out of joint.

Indians are beginning to realise that the country's political and economic weakness has lost them much respect in the world. Mr Gandhi's death provides the opportunity for a new beginning. But the road will be long and hard.


Resting place: Rajiv Gandhi's body lies blanketed in flowers in New Delhi

Breath of strife

■ Gerald Ratner's famous experiment to discover if there's any such thing as bad publicity is now being followed up inadvertently by the UK health care division of US pharmaceuticals group Warner Lambert.

When Britain's Sun newspaper asked for samples of its Coolmint Listerine mouthwash, it promptly sent 2,000 bottles free. "We were given the impression they were to be used in consumer trials with French people because they'd been shown by a survey to have the worst smelling breath in Europe," a spokesman explains.

The proposal was attractive because, although Listerine is going down well in the UK and trickling into Spain, Holland, Belgium, Denmark and Sweden, the French and German markets are untapped.

The paper's consumer trials, however, turned out to be in dubious taste. "Calling all foul-mouthed Frenchmen!", it bawled from a page top yesterday. "You can now collect your free supplies of mouthwash – thanks to the Sun.

"We have teamed up with the people who make Listerine to try to stamp out the Pong Francais," it added, promising a free bottle to any holder of a French passport who called at the paper's offices.

So far, the division's spokesman sees no reason to worry either about the effect on sales prospects in France, or about what the Sun might do if its first, 2,000-bottle offer isn't fully taken up. "We just hope it doesn't get too offensive, that's all."

Side by side

■ Hanson's arrival at the foot of ICI's ramparts has taken the Confederation of British Industry somewhat aback. Although much exercised of late by issues such as City short-termism, it cannot make any statement on a Hanson bid for Britain's largest industrial combine.

The reason is simple. Both companies are members, a fact demonstrated by the CBI's new annual report. On successive pages it has pictures and quotations from executives of both companies about their work for the greater good of British business.

Chris Hampson, head of ICI's bulk chemicals business and chairman of the CBI's environment committee, extols the virtues of a responsible attitude towards the environment.

Adjacently Martin Taylor, Hanson's deputy chairman and chairman of the confederation's companies committee, says the CBI aims to "hold fast to the basic essential of commercial freedom for business, firmly linked to integrity towards customers, responsibility towards employees and most significantly accountability towards shareholders."

OBSERVER

Other foot

■ Certain investment managers at Postel, one of the UK's largest pension fund management groups with £20bn in its kitty, are about to start learning how the other half lives.

While your common or garden venture capitalist has long had to stump the markets in search of funds, Postel's executives are used to having plenty of same on tap. Any wearing out of boot leather is done by finance directors and securities salesmen beating a path to their door.

But times are changing and John Brakell and Ray Maxwell, who run Postel's venture capital portfolio, will soon be pounding the streets, not least of New York. They have to drum up funds for a new venture capital operation they plan with America's Chancellor Capital Management, most of the money being expected to come from US institutions.

"I wonder if there's any money in putting down pit bull terriers?"

Maxwell's belief is that the unaccustomed activity will be "exciting".

Whether or not he's right, it will certainly be a shot in the arm for rival venture capitalists if they catch sight of the Postel duo slumped exhausted on the "red eye" flight back from New York.

New blood

■ Meanwhile the Association of Investment Trust companies is getting a younger look. Out goes Foreign & Colonial's Michael Hart, the doyen of the industry, after a two-year stint as chairman.

In comes 39-year-old Paul Manduca who has spent the last two years reviving the fortunes of Touche, Remnant after the late 1980s trauma caused by staff departures and predatory bids. Now he hopes to continue the revival in fortunes of the investment trust industry, where discounts have narrowed as private investors have rediscovered the sector.

A sports enthusiast, Manduca supports Wolverhampton Wanderers whose star player is called, appropriately, Bull.

Near thing

■ ICL, profitable and ebullient, seems the very model of a modern computer company under its owner of six months, Fujitsu of Japan. The story of the impending takeover broke in July last year, shaking the world computer industry's major players brutally out of their summer reveries.

Inevitably, the revelation overshadowed the same day's news that leading UK software house Hoskyns was to be sold to Cap-Gemini-Sogeti (CGS) of France, Europe's largest and most aggressive computing services company.

Only Hoskyns's chiefs know how close things came to a clean sweep for Japan.

GEC and Siemens had inherited Hoskyns via their joint bid for Plessey, and were anxious to be shot of a company and industry they found hard to comprehend. With CGS's early interest fading through dislike of the conditions of sale, the Japanese computing company CSK was emerging as front runner.

At that point the Hoskyns management decided overalls at work and sushi for lunch were not for them. Merchant banks pulled strings to secure the deal for CGS in the nick of time.

Just as well. The thought of the UK's premier hardware company and software company both going into Japanese ownership would have proved too much for defenders of the UK's electronic sovereignty.

Mystery tour

■ An elderly man applying for renewal of car insurance has recorded having three accidents in swift succession. First his car was hit by an aircraft, next rammed by a yacht, then swamped by a giant wave.

ECONOMIC VIEWPOINT

How to refinance the grass roots

By Samuel Brittan

This article began as an attempt to see what has recently happened to fiscal privilege in the housing market. But I soon found that the wider issue of the finance of local government remains too bizarre to be left to those who profess to understand the subject.

My starting point was nevertheless the privileged position of home ownership compared with other forms of investment. Some economists are adamant that this has contributed to property booms, and to inflation. In any case, it raises underlying land values and leads to a bias in investment in favour of domestic property.

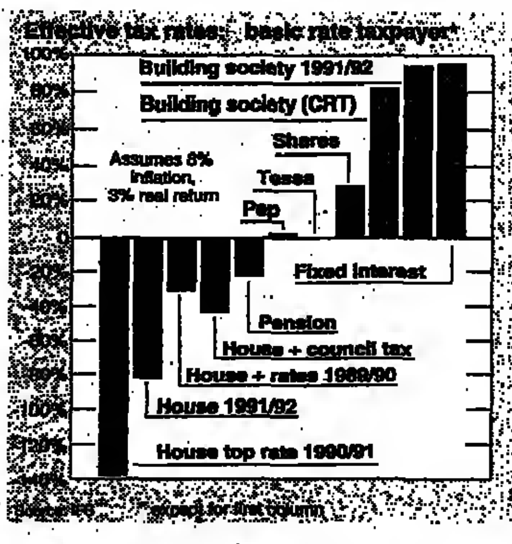
These distortions were unfortunataly aggravated rather than reduced by the Thatcher government. The last vestiges of a tax on the imputed income from house ownership, namely domestic rates, were abolished, and any trimming of mortgage interest relief was vetoed. The results are shown in the first chart, which is an estimate by the Institute for Fiscal Studies of the effective marginal rate of tax on the return from alternative investments on certain stylised assumptions.

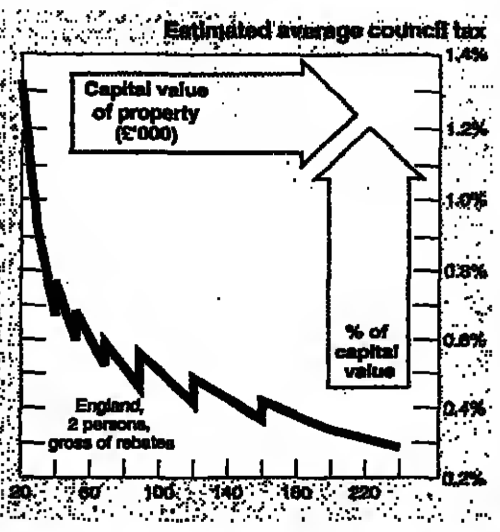
In the middle are tax-exempt savings accounts (Tessas) and personal equity plans (Peps), on which there is no tax on the yield. Income from most financial assets is taxed quite heavily, *mainly because of* the lack of effective indexation for inflation. On the other hand, the effective tax rate is negative on investment in pension funds and homa ownership. The most flagrant example was in 1990-91 when domestic rates were abolished and mortgage

The absurdity is that local authority taxes now cover only 12 per cent of their current spending

interest relief was available against the higher 40 per cent income tax rate. The higher-rate tax payer could then face an effective tax rate of *minus* 137 per cent.

As a result of the limitation of mortgage interest relief to the basic rate in the 1991 Budget, the typical effectiva tax rate on home ownership will now be only minus 82 per cent. The projected council tax may take this down to minus 43 per cent, which is still somewhat more privileged than the minus 31 per cent which prevailed when domestic rates were in force. The tax rate on the return from domestic property was minus even then,





because of the combination of mortgage interest relief and the non-taxation of capital gains on owner residences.

How far the proposed council tax is from a full property tax – and the element of "son of poll tax" – is shown in the second chart. The average yield of the council tax, if it were in force this year, might be about 0.575 per cent of capital values. But because of the banding system it will range regressively from well over 1 per cent on the cheapest properties to under 0.3 per cent on the most expensive ones.

It would be possible to make the council tax less regressive, and bite more on voters with relatively expensive property in the south-east, by increasing and extending the number of bands. If a Labour government did this it would be able to claim that it was in fact going back to a modernised system of rates, without having to tear up local authority finance by its roots again.

Even the old domestic rates were regressive in relation to income, however, especially at the lower end. Hence the need for extensive rebates. The Institute for Fiscal Studies, in a recent publication, Local Taxation (7, Ridgmount St. London, WC1 7AE 1AE, price £10), has concluded that for this and many other reasons a property tax should be supplemented by a local income tax.

* * *

The Thatcher government'a changes to local anthority finance had three aspects. First, there was the move to a fixed grant to each local authority based on a supposedly objective determination of needs. Second, *there* was *the* move to a centrally fixed business rata, the proceeds of which are distributed to local authorities according to population. The business rate was further tied down in that it could not be raised by more than the rate of inflation. Third, there was the substitution of the poll tax for domestic rates.

The changes proposed by Mr John Major only affect the poll tax. The other elements remain in place. The increase in the proportion of local government spending financed from the centre, following the rise in VAT from 15 to 17½ per cent in the Budget, has increased the gearing of local authority spending even further to a factor of about seven to one. This means that for every 1 per cent by which an authority's spending exceeds the amount Whitehall deems appropriate, tha local tax – whether the poll tax or council tax variant – will increase by 7 per cent.

Mrs Thatcher hoped that the high local tax cost of extra spending would be a powerful deterrent to excessive expenditure. But initially, at least, local authorities simply pushed up the local tax bill, and put the blame on central government, which was then bullied into panic rebates and grants.

The absurdity arises because local authority taxes are now expected to cover only 12 per cent of their current spending: a recipe for irresponsibility and passing the buck.

There is indeed a case for going the whole hog and abolishing all local taxes except for some minor imposts to pay for a few optional frills. But in that case central government should be seen to call the tune and local authorities should become just service agencies. There could still be local elections. Their purpose would just be to secure some on-the-spot influence on *the details* of administration. But this defeatist solution would increase our over-centralisation.

The natural reform is to pick out those decisions which are best made at local level and see that local electors face the full consequences of what their representatives decide, no more no less. That would only be possible if the typical local authority raised its own finance. Indeed, the ideal system might be the Oxford and Cambridge ona, where the richer colleges pay a levy to help the poorer ones. As a more practical second best, central government snpport should be confined either to poorer councils or to those with unusually heavy needs.

This would only be possible if there were either a massive increase in local authority revennes or a massive reduction in the services for which they are responsible. Even if education were removed – which is the most widely canvassed reform – there would still be no chance of the proposed council tax being sufficient to cover expenditure. The old UK rates (both domestic and business), already which amounted in their prime to nearly 4 per cent of Gross Domestic Product, compared to an average *yield* of 1.2 per cent for property taxes in Organisation of Economic Co-operation and Development countries. Thus if we mean business about local responsibility – even for a mnch redneed range of services – there is no alternative to another form of local tax, of which a local incomes tax is the only real runner.

The idea is normally rejected with horror by Conservative governments and passed quietly over by Labour ones, because of the high headline tax rates to which the combination of a national and local income tax would give rise. According to an estimate by David King of the University of Stirling, a local income tax of

There is no real alternative to a local income tax, if we want to restore local responsibility

14p in the pound mighty be required for a fully localist approach. (Local Government Taxation, IEA, 2 Lord North St, London, SW12P 3LB).

But, as Mr King himself points out, if the purpose of a local income tax is to replace central govarnment grant, rather than rates or the poll tax, then the arithmetic becomes very different. For the imposition of a local income tax then allows the national income tax to go down pound for pound. There need then be no change in the typical income tax bill.

Local responsibility requires adequate local revenue in place of mere tokenism.

BOOK REVIEW

Hot boardroom topic goes to their heads

POWER AND RESPONSIBILITY
By Robert Monks and Nell Minow
Harper Business, New York. $22.95
292 pages

It is an issue as old as modern capitalism itself and as contemporary as a takeover battle: what is the proper balance of power between managers who run a business and shareholders who own it?

The topic is one of the hottest corporate questions in America today and promises to grow even more contentious as the dacade progresses. Yet more than two centuries ago it drew the attention of Adam Smith, who observed in the Wealth of Nations that direc*tors of publicly held companies* could not be expected to watch over the affairs of the business with the same "anxious vigilance" as a private partnership, with its own wealth at risk. Despite Smith's strictures, the joint stock company prospered, and there grew up around it a superficially appealing theory: shareholders, by diligently monitoring the performance of the business, operated a power*ful system* of *checks* and balances on management.

Yet most shareholders have neither the time nor inclination for such vigilance, and their sheer numbers are an impediment to collective action. Like most golden ages, this one probably never existed, and it was certainly long gone in the US by the 1980s, when an unprecedented wave of hostile takeovers put management and investors at odds as never before. The managers accused shareholders of selling out the business from under them, withont any regard to its long-term well-being. Shareholdars in turn accused managemant of entrenching itself behind a series of artful legal barriers.

There is a lot of truth in both arguments but the shareholders have the stronger case: during the 1980s US managements, abetted by state courts and politicians anxious to sustain local companies, put in place an extraordinary range of measures designed to prevent takeovers and frustrate the right of shareholders – the paopla who nltimataly employed the managers – to make a free choice.

Out of the resultant frustration was born the corporate governance movement, which is now growing fast and consists of investors who try to make companies more accountable to shareholders. Over the past few years it has chalked up some big successes, either in quiet discussions with com*pany* c*hairmen* or *throngh* proxy, or shareholder voting battles.

Robert Monks and Nell Minow are veterans of the movement and among its most articulate advocatee. Mr Monks, who once headed the US Labor Department's pension programme, founded Institutional Shareholder Services, a firm that advises pension funds on how to vote their proxies. *Ms Minow succeeded* him last year as head of ISS.

Their book is as near as one is likely to get to a bible for the movement, and it has all the strengths and weaknesses of a peacher'a tract – powerfully arguad, but one-sided, and inclined to an over-optimistic view of the hereafter.

Monks and Minow offer a good, simple account of the familiar corporate excesses of the 1980s – *be it* poison *pills*, "greenmail" and the abuses of employee etock ownership plans. Their questions abont the composition of company boards – too often full of "yes men" – are useful, if a little sketchy, and the same applies to their strictures on excessive executive compensation. The average US board member, they say, now receives 157 times the pay of the manufacturing worker, compared to 24 times in the mid-1970s.

But they overstate corporate America's freedom from accountability, and their assertion that better govarnance *will necessarily lead* to more caring companies, anxious to align their policies with those of the community, is also dubions. The prime concern of shareholders is profits, not social or environmental issues.

Still, their broad diagnosis of the need for more corporate governance is sound. How to achieve it? Monks and Minow urge changes in company voting rules and would like (while recognising this as unlikely) a federal corporate law covering governance issues.

But they pin their main hopes on US institutional investors, the large fund managers which have grown rapidly over the past two decades and now own some 45 per cent of US stocks. It is in their interests to improve the managemant of the companies in *which they invest, since this* should boost the value of their portfolios.

Some, in particular the large public pension funds, which handle the retirement benefits of state employees, are already at the *forefront* of the corporate governance movement.

The problem is that many other categories of institution are not nearly so enthusiastic. The running of corporate pen*sion funds* – *so-called Erisa* schemes – is usually farmed out to fund managers who see no advantage in rocking the shareholder rights boat. And insurance companies, which also control large pools of inveetment funds, could be held back by commercial relations with the companies.

Monks and Minow argue thet a powerful boost would be given to the movement if com*panies* took *responsibility for* ensuring that their pension fund eharee ware voted. Indeed, they point out that Washington has recently given a strong series of nudges in this direction, with statements declaring thet Erisa fiduciaries who vote blindly, or do not vote or corporate issues, appear to be violating their duty to plan participants.

But while this is fine in theory, companies are unlikely to embrace the idea with enthusiasm, for it will advance the very forces that threaten to curb their freedom of action.

So while the corporate gover*nance movement will certainly* gather pace over the next few years, and corporate leaders will ignore it at their peril, it is questionable wbether it will have quite the force Monks and Minow would like.

Martin Dickson

LETTERS

In support of a minimum wage

From Mr Simon Crine.

Sir, Your report ("*Minimum* wage targets criticised", May 20) on our latest publication, Making a Minimum Wage Work, lacked your usual sense of balance and eye for detail. The author, Fred Bayliss, is a strong supporter of the concept of a national legal minimum wage. As the title indicates, Mr Bayliss'e interest was in how a minimum wage might be implemented and not in whether there should be one.

The pamphlet does not go in for alarmist predictions of job losses and wage increases on the initial target figure Labour has proposed of a half of median male hourly earnings. It simply calls for a minimum wage to be introduced at a modest level and to be raised by rather more than inflation to achieve real gains for the low-paid. In the words of the joint Labour party and TUC statement of 1986: "The important point is not the initial figure; it is to get the legislation on the statute book and progressively to update it."

Simon Crine,
Fabian Society,
11 Dartmouth Street, SW1

An education system that would unite knowledge and skill

From Mr David Miliband.

Sir, Andrew Adonis associates himself ("Bottom of the class", May 21) with the view that Labour and Liberal support for an end to A-level élitism, and the creation of a unified system of education and training for 16- to 19-year-olds, "has more to do with crude social engineering than with life-chances and national efficiency". But fundamental reform – preferably sophisticated educational engineering – is needed precisely to advance social and economic aims.

Our uniquely specialised academic track is not just bad for those who do A levels. It is disastrous for those who do not. Above all, the division between education and training establishes the judgment of failure, not the promotion of achievement, as the *leitmotif* of the system. Vocational education becomes a refuge for those who fail to make the academic grade. The division from gen*eral education makes* vocational courses narrow and prematuraly job-specific in content. The differences in structure, style and assessment make transfer between the two tracks difficult, and "equivalence" unobtainable.

A unified system, on the other hand, can supplement a foundation of knowledge and skill with a varying balance of academic and vocational study to suit different aptitudes and interests. By uniting – instead of polarising – knowledge and skill a unified system is the basis for creativity in a modern economy. The Royal Society and the Association of Principals of VIth Form Colleges have recently joined IPPR'e call for a unified system.

Both equity and efficiency now depend on the higher participation and higher achievement such a system would promote.

David Miliband,
research fellow,
Institute for Public Policy Research,
30-32 Southampton Street, WC2

Questioning the Chernobyl study

From Simon Roberts

Sir, Your report of the International Atomic Energy Agency's etudy into the impacts of the Chernobyl *nuclear accident on* human health ("Chernobyl sickness fears reduced", May 21) failed to examine its very shaky research foundations.

Even a brief analysis of the study indicates that the IAEA's claim that there are "no health disorders that could be attributed directly to radiation exposure" is verging on the scientifically incompetent.

Scientists undertaking the study failed to *investigate* the health of the 600,000 "liquidators" of the accident – the soldiers and miners involved in "clean-up" and containment operations who would have *received the highest radiation* doses. They also failed to assess the health of the 100,000-plus evacuees from the Chernobyl area who may have received high doses before they were evacuated.

Moreover, the IAEA scientists failed to acknowledge that any increase in radiation-*linked health problems* – *leu*kaemia, thyroid tumours and other cancers – would not necessarily show up yet. For example, leukaemia cases could be expected to peak some ten years after the accident. No "marked increase" now is no reassurance for the future.

The IAEA could be justifiably accused of drawing a veil of inept science over the consequences of the world's worst nuclear *accident. It* has done the ailing reputation of nuclear power and the people of Chernobyl no favours with tis unscientific assertion that radiation is free of blame.

Simon Roberts,
National Energy Campaigner,
Friends of the Earth,
26-28 Underwood Street,
London N1 7JQ

The high cost of US health care

From Mr Peter Tray.

It seems surprising that Michael Prowse failed to mention ("Be grateful for the NHS", May 20) what is surely a *principal cause of the astro*nomical costs of health care in the US – the litigious nature of US society.

This results, *inter alia*, in professional negligence insurance premiums *several* times higher than most European doctors' salaries; and pressure on the medical profession to *order every conceivable test in* order to avoid a lawsuit.

Peter Tray,
Richard Archie & Co,
683 High Road N12 0DA

Quality, not quantity, is becoming the yardstick for UK consumers

From Mr R Tyrrell.

Sir, In their article, "Uphill *fight in the high street*" (*May* 14), Alice Rawsthorn and John Thornhill put a considerable emphasis on the consumer's demand for quality. We run a programme on behalf of more than 80 consumer goods and services clients that has found evidence of behaviour during the recession that strongly supports the quality thesis.

Casual and traditional thinking is that the consumer response to hard times is to "trade down". If we defina trading down more precisely as buying the same range of goods but going for cheaper and inferior quality products our research suggests this is *now frequently not the con*sumer's response.

When little discretion exists in each purchase category (you are buying the food because you have to eat or tha car because the old one has broken down) then, when hard times happen, your only option is to trade down.

If, however, a significant proportion of each and every category of purchase is *discretion*ary (you don't really need the kiwi fruit and you just fancied a new car) you have available an alternative strategy: you reduce your purchase frequency but not your fundamental quality expectations.

Our evidence is that *for most* product sectors the most popular strategy has been to reduce purchase frequency but to maintain quality etandards. For example, in the 12 months *February 1990-91, of those cut*ting their expenditure on cars only 10 per cent "bought a cheaper new car than they would have liked". In the case of alcohol, of those cutting back, *three-quarters have* reduced frequency compared to only a quarter trading down. Most other sectors showed similar patterns, though food was split 50-50 between trading down and buying less frequently.

These data *suggest that* we are well into the "I fancy it" rather than "I need it" consumer society. Quality, variously and sometimes surprisingly defined, will become a progressively *more important* basis of competition in consumer markets.

R Tyrrell,
Henley Centre,
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Fax service
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FINANCIAL TIMES
Thursday May 23 1991

Ghostly look haunts the grief of millions

K.K. Sharma drove 300km to New Delhi past a people in a state of helpless shock

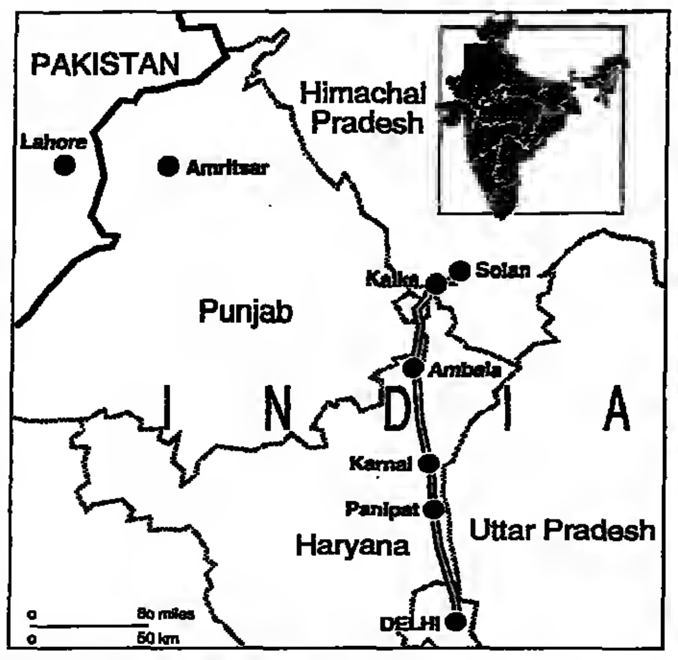
STUNNED by the news of Mr Rajiv Gandhi's assassination, millions of bewildered and grieving Indians took recourse to a spontaneous "bandh" (general closure) across vast stretches of their country yesterday, closing all commercial establisbments and remaining indoors.

Although reports of violence came in from some states and the authorities sounded a general alert as thousande of mourners in the capital, New Delhi, streamed past Mr Gandhi's body, in large parts of the country people were obviously in a state of shock, reacting to the news with a sense of helplessness.

Driving across four northern Indian states more than 300km from mountainous Himachal Pradesh, towns and villages en route to New Delhi, on what is normally a chaotically buey highway, wore a ghostly look which was both uncanny and strikingly uniform.

Not a single shop was open, restaraunts refused to serve meals, petrol stations were declared closed and streets were, by and large, deserted. Small groups of no more than five or six people gathered outside their homes to discuss the development quietly.

There was no sign of the kind of violence into which the same region erupted after the assassination of Mrs Indira Gandhi in 1984. Indeed, I saw many Sikhs walking or moving about on scooters fearlessly.




A woman breaks down outside Teen Murti House

With such a response from what is usually an easily inflammable part of the country, there was little need for security measures.

In Solan, the second largest town in Himachal, I was held up for about 10 minutes as a small crowd of abont 20 people shouted pro-Rajiv slogans and blocked the main street. The demonstration was brief and I had no difficulty in gatting through the normally bustling town.

Along tbe main national highway that took me through Himachal, Punjab and Haryana before entering New Delhi, patroling by security forces was surprisingly light.

Although I heard reports of a curfew having been declared in Ambala town and the army having been put on the alert, patrolling by police and para-military forces was barely in evidence. In the normally volatile town of Panipat, about 60 kilometres from New Delhi, I saw two patrol cars carrying machine guns.

Bnt Panipat's nsnally crowded streets were almost bare and there could not have been mora than a dozen vehicles on the main highway running through the town.

The patrol cars looked totally incongruous. Delhi looked strangely similar after I crossed the border towards avening. The taffic was unusually thin, shops had pnt up their shutters and there were hardly any buses about. Official buildings flew the national flag at half mast, but there was not much patrolling visible.

Only near Teen Murti House, where Mr Gandhi'e body lay, was there a marked change. Policemen were busily dirverting traffic and pedestrians as hundreds of thousands of mourners waited patiently to walk past the body and pay homage to the assassinated leader.

EC states urged to pull economies closer

By David Buchan in Brussels

THE EUROPEAN Commission yesterday called on EC governments to pull their economies closer together by submitting medium-term strategy plans to Brussels by tbe end of this year.

Mr Henning Christophersen, EC commissioner responsible for macro-economic affairs, presented his annual economic raport for 1990/91 which strongly urges soothern EC states to curb bodget deficits and Germany to master its rising inflation rate. He said he hoped all governments would soon present so-called convergence plans, "preferably in the form of binding commitments".

The Commission, spurred by the stress put on greater convergence by EC finance ministers earlier this month, is trying to accelerate economic discipline measures well in advance of any actual moves to a single EC currency.

Most of the draft monetary union treaties, tabled in the Inter-Government Conference (IGC) so far, have only called for individual governments to begin submitting their medium-term economic forecasts and policies for Community discussion and approval after, not before, the planned 1994 start of the formal Stage Two transition to monetary union.

But Mr Christophersen said yesterday that "all Twelve (states) will have to have a clear picture of their medium term strategies before moving into Stage Two". He hoped EC finance ministers would discuss this at one of their two meetings next month.


Henning Christophersen: seeking binding commitments

Revising earlier forecasts downward, in the light particularly of the Gulf war and sharper-than-expected recession in Britain and France, the Commission predicts that Community gross domestic product will fall from 2.7 per cent last year to 1.25 per cent this year, before rising again to 2.25 per cent in 1992.

This, in turn, will depress growth in the overall number of new jobs created; the total number of jobs is set to rise this year by less than half a per cent. These will not be enough to provide work for all those entering the labour market. As a result, for the first time since 1986, the average EC jobless rate will rise slightly to 8.75 per cent this year and to 9.25 per cent in 1992.

Despite a decline in the rate of consumer price rises since the end of the Gulf war, "inflation remains worryingly high for a period of slowing growth," the reports says. Among the Twelve, the main change has occurred in Germany (most Commission data are still based on former western Germany). German inflation, rising to a forecast 3.5 per cent this year and 4.25 per cent next year, means that "there is no room for relaxation of monatary policy by the Bundesbank," Mr Christophersen said.

In the UK, "the situation will be mnch better next year than this year, except for unemployment" which is forecast to rise from 8.5 per cent to 10.75 per cent, the commissioner said. The UK, the only Community economy whose output will shrink in real terms (minne 2.25 per cent) this year, will return to growth (plus 2.25 per cent) In 1992, Brussels believes.

Mr Christopbersen gave a foretaste Brussels' multilateral surveillance by issuing warnings to Greece, Portugal, Italy and Spain. He said: "We do not like specific countries to be singled out too much, but we need to be frank".

Tokyo shaken by resignation of banker

By Rnbert Thomson in Tokyo

JAPAN'S financial world was ahaken yesterday by the resignation of a leading banker, Mr Takeo Masuno, president of Kyowa Saitama Bank, for his institution's dealings with a speculator group now facing trial on charges of share price manipulation.

The resignation is the second by the head of a leading Japanese commercial bank.

Mr Masuno had been president of Saitama Bank, which merged with Kyowa Bank last month to form the country's eighth largest bank, and he had antborieed Y30bn ($215.8m) in loans to tha Koshin epeculator group, headed by Mr Mitsuhiro Kotani who has been charged with allegedly manipulating share prices.

Koshin had cornered shares in Janome Sewing Machine, Japan's second largest sewing machine maker and closely linked to the Saitama Bank. It is alleged the Koshin group had threatened to transfer its shareboldiug in Janome to anotber company in 1989 unless the sewing machine maker pressed Saitama bank for the Y30bn.

Mr Masuno, whose resignation was accepted by an extraordinary meeting of the bank's board, said the loans to Koshin had "aroused public criticism and caused great trouble", and ba must take responsibility for this damage.

He will remain as a "director-consultant" for the time being, while tha bank's vice-president, Mr Shigehiko Yoshino, will replace him.

Janome's management has already been reshuffled, as the company was also caught in the Y300bn collapse earlier this year of Nanatomi, a property developer and stock speculator which had bought the sewing machine maker's shares in tandem with Koshin after 1986.

Mr Masayuki Yasuda, Nanatomi's president, eventually became tha vice-president of Janome, with the apparent knowledge of Saitama Bank.

As is common in corporate Japan, the bank had traditionally sent executives to the sewing machine maker, which is now run by a new set of officials from the bank.

Mr Masuno said he had considered resigning earlier this year, but had wanted to ensure the merger with Kyowa Bank was conducted smoothly.

He said the bank was under great pressure from Janome to lend the Y30bn to the Koshin gronp and had repeatedly turned down the requests but, in the end, felt that it had to hand over the funds.

Bank calls for greater integrity

By David Lascelles in London

THE BANK of England has warned merchant bankers that a poor reputation can damage a bank's business as well as its name.

In a series of meetings with bankers engaged in corporate finance, the Bank focused on "reputational risks".

One of its concerns is the growth of innovative financing deals, including certain leveraged buy-outs which the Bank believes pusbed against the edge of financial probity.

The meetings were disclosed yesterday in tbe Bank's annual report on the state of Britisb banking. It said: "The Bank attaches great importance to the integrity with which banks conduct all activities and the threat to reputation which can occur if their business conduct is called into qnestion."

About a dozen banks were involved in the talks, which took place over a period of several months.

Although the report gave no reason for the meetings, it was clear tbat the Bank was prompted by tbe aumerous scandals that have rocked merchant banks in recent years.

Background, Page 8

Rebels advance on Ethiopian capital

Continned from Page 1

persuade them to pressure the rebels to accept a ceasefire.

"The rebels don't realise they have won," said one western ambassador. "It is over. The rebels must understand this is a different regime and the government is suing for peace even if they are not prepared to say that publicly."

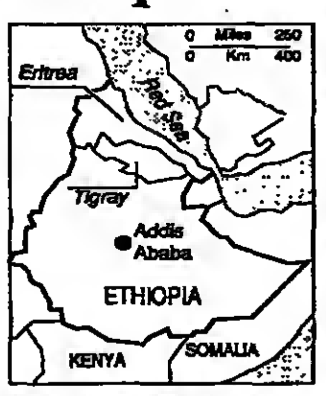
Bnt foreign nations, wbo were meeting rebel leaders in London and Washington yesterday, appear to have littla influeoce over the rebel groups wbo bava not so far stated exactly what they want from the new authorities. "The military momentum is still way ahead of the political momemtum," said one observer.

Several diplomats described Mr Gebre-Kidan, a former general who commanded troops in Eritrea, as a man genuinely interested in ending the war. However, the government has refused to halt the total mobilisation campalgn, a move which would be taken as a sign of goodwill by the rebels.

Three thousand troops of the presidential bodyguard, with about 100 tanks, are tha last remaining military obstacle to a rebel seizure of the capital which, observers say, could fall in two or three days. But the consequences of that would be enormous.

"Tens of thousands of blearyeyed, drunk soldiers flooding into Addis Ababa is inviting a crisis," said one westeru diplomat. "Foreigners would avacuate, the famine effort to save 6 million peopla would disintegrate and anarchy could quickly take over."

"The new government has definitely made positive steps but the rebels are a bit intoxicated with their apparent successes and may not want a political settlement," said Professor Mesfin Wolde Mariam, the recent author of a plan for peace and democracy.



Whether this happens or not will depend on the government's willingness to commit itself publicly to concessions and the rebels' acceptance of a negotiated settlemeot at peace talks in London next Monday.

Cresson advocates EC-wide industrial policy

Continued from Page 1

Cresson Indicated that sba would follow the established line set by the preceding government of Mr Michel Rocard. She said that France should be proud of its balanced economic situation, "praised by our partners as the fruit of a virtuous policy".

The French prime minister said this success was based on a strong franc, restrained inflation, controlled pnblic epending, and stabilised tax levies.

"These achievements are our trump cards", she said. "I intend to consolidate them."

But she said thet one of the functions of the new superministry of Finance, Industry and Trade, would be to "favour the orientation of public finance resources in the direction of industry", without however spelling out how this would be achieved.

In the wake of the Gulf war, Mrs Cresson said that the French government would make proposals, in liaison with the US, on the limitation of arms sales and to ensure non-proliferation of weapons of mass destruction.

Moreover, she predicted that the French army would in future be adapted so as to be "stronger, more compact, better equipped, better led".

THE LEX COLUMN

The insecurity of UK property

The City of London may or may not be better than it was at forecasting profits of UK companies. Where its own bricks and mortar are concerned, there is certainly room for improvement. Yesterday'e news of a 28 per cent fall in the value of Land Securities' City portfolio exceeded the market's worst fears and underlines the extent to which rental expectations took a tumble in the first quarter. LandSecs may have had some catching up to do after its last surprisingly resilient net asset performance. But that alone cannot explain the sharp difference between these figures and those reported by companies with a December year-end.

Just as striking are the cautious comments about reversionary growth. LandSecs has plenty of blne chip tenants, but scope for rent increases is plainly much redneced. The implication is of a marked elowdown in profits growth over the next couple of years, raising qnestions over LandSec's ability to maintain its impressive dividend record. The company will not want to disappoint its followers, but may need to be flexible when it comes to future dividend cover.

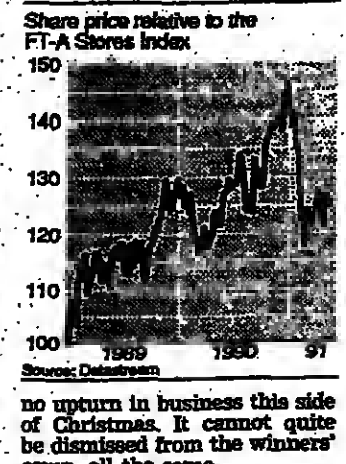
At 521p, down 9p on the day, LandSecs stands at a 22.5 per cent discount to the latest net asset value or 15 per cent on a prospective figure of, say, 610p. The generous rating is appropriate enough for a quality stock in nervous times. There may also be an argument for narrowing discounts throughout the sector in the light of lower capital gains liabilities, though this should not be overdone. The real qnestion for investors is whether LandSecs will be the most exciting performar when the market finally turns. History would suggest otherwise. There are as yet no signs that the company is about to turn more aggressive this time round, or to take action to buck the trend. Its solid but boring reputation looks secure.

W.H. Smith

In the context of recent rights isenes, yesterday's £148m call from W.H. Smith lies between two extremes. On the one hand are the winners like Tesco and Argyll, looking for funds to widen the gap between themselves and the competition. On the other are the losers, desperately seeking to restore their balance sheets while talking of opportunity. Smith is overgeared, is forecasting a continuing decline in underlying profits and expects no upturn in business this side of Christmas. It cannot quite be dismissed from the winners' camp, all the same.

W H Smith

Share price relative to the FT-A Stores Index



Source: Datastream

Smith's strategic advantage lies in market dominance in books, records and office supplies. Like the big food retailers, it is out to put pressure on competitors in the downturn by axploiting its access to equity finance. Together with the cash coming from the sale of its television and travel businesses, the issue will provide it with two-thirds of its £300m investment bill over the next three years. With lnck, the business should then be generating enough cash to ensure that rights issues do not become a habit. This one, which involves dilution in family control, is the first in the company's history.

Yesterday's surprising 4 per cent jump in the shares does little to reverse the relative weakness since the disappointing interim figures in Jannary. But part of the problem has had to do with balance sheet constraints. Now that conservative financing has been added to the company's other defensive characteristics, the shares have their attractions at a time when the outlook for consumer spending is as murky as ever.

Bass

Bass always promised that this would be a difficnlt year, so yesterday's 16 per cent drop to £309m in interim pre-tax profits came as no surprise. The disappointment was rather that the statement offered so little insight into the real extent of the challenge, or indeed why March's £558m rights issue was needed in the first place.

In brewing, for instance, it is hard to tell how much of the 3 per cent fall in beer sales volume was simply dne to the anforced disposal of pnbs under the new governmant rules. In hotels, despite the well-publicised effects of the Gulf war, the underlying performance looks better than expected. Bingo has proved remarkably resilient. Coral Racing is now up for sale, but is hardly likely to fetch a top price while it remains unclear whether William Hill is also coming on the market.

As for the rights issue mystery, one answer may be that the company simply underestimated the cost of dealing with the shake-out in pubs and brewing simultaneously with the recession and the process of digesting its hotels acquisition. If that is the case, a slow improvement now looks on the cards. Another possibility is that Bass is aiming to acquire a premium lager in Europe. But it already owns Britain's leading brand in Carling Black Label. And with over 2,000 pubs still to sell by 1992, it has enough to do at home.

UK economy

Yesterday's figures on UK output in the first quarter make it fairly clear that this recession will prove the second worst since the Second World War, tailing only behind that of 1980-81. What is still uncertain is how far the rate of decline is slowing. In the three recessionary quarters reported so far, the bald figures show a drop in GDP of 1.4 per cent, then 0.9 per cent and now 0.6 per cent. However, the trend is a good deal less clear when the erratic influence of North Sea oil is excluded. In any case, the anecdotal impression is that, whereas the decline in the economy may have eased in March in the aftermath of the Gulf War, there may have been renewed weakness since.

Nevertheless, the consensus probably remains that the current quarter will be the last of the recession proper. Whether the forecasters hold their nerve as the third quarter proceeds remains to be seen. It is also worth noting that retailers such as Marks and Spencer last week and W.H. Smith yesterday seem to be developing a consensus of their own, whereby consumer spending is no longer expected to show any recovery before 1992. The reasoning is that unemployment has overtaken interest rates as the focus of concern. Until people are sure of their jobs, the savings rate will not recover; unemployment, as the retailers are reflecting, is a lagging indicator.

WORLDWIDE WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	19	66	Berlin	S	18	64	Caracas	F	30	86	Faro	S	22	72	Islamabad	F	32	90
Algiers	S	21	70	Biarritz	S	24	75	Casablanca	S	25	77	Florence	S	23	73	Istanbul	F	16	61
Amsterdam	S	14	57	Bombay	F	33	91	Chicago	C	22	72	Frankfurt	S	22	72	Jakarta	C	32	90
Athens	F	23	73	Bordeaux	S	26	79	Cologne	C	18	64	Geneva	S	23	73	Jersey	S	19	66
Bahrain	S	32	90	Boulogne	F	19	66	Copenhagen	S	13	57	Gibraltar	S	20	68	Johannesburg	S	22	72
Bangkok	C	34	93	Brussels	F	17	63	Corfu	S	21	70	Glasgow	C	15	59	Lima	C	23	73
Barcelona	S	19	66	Budapest	F	21	70	Dallas	C	22	72	Helsinki	S	11	52	Lisbon	S	26	79
Beirut	-	-	-	Buenos Aires	C	14	57	Dublin	C	17	63	Hong Kong	F	30	86	London	F	20	68
Belfast	C	14	57	Cairo	F	26	79	Dubrovnik	S	21	70	Innsbruck	S	23	73	Los Angeles	C	19	66
Belgrade	F	23	73	Cape Town	R	17	63	Edinburgh	F	16	61	Inverness	C	13	55	Luxembourg	F	21	70

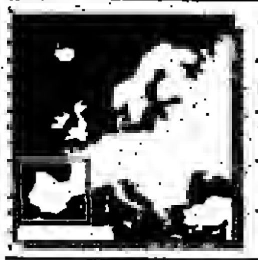
		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Madeira	S	23	73	Milan	S	23	73	Nicosia	S	22	72	Salzburg	F	20	68	Tenerife	S	24	75
Madrid	S	23	73	Montreal	S	19	66	Oporto	S	24	75	San Francisco	F	11	52	Tokyo	S	26	79
Majorca	S	20	68	Moscow	C	13	55	Oslo	F	14	57	Seoul	S	29	84	Toronto	S	19	66
Malaga	F	20	68	Munich	F	21	70	Paris	F	23	73	Singapore	-	-	-	Tunis	S	20	68
Malta	S	19	66	Nairobi				Peking	R	25	77	Stockholm	C	10	50	Valencia	S	24	75
Manchester	F	16	61	Naples	S	20	68	Prague	F	18	64	Strasbourg	S	25	77	Venice	S	21	70
Manila	F	36	97	Nassau	C	30	86	Reykjavik	F	7	45	Sydney	C	15	59	Vienna	C	22	72
Melbourne	R	14	57	New Delhi	S	34	93	Rhodes	S	22	72	Taipei	F	33	91	Warsaw	S	18	64
Mexico City	F	29	84	New York	F	22	72	Rio de Janeiro	F	29	84	Tangier	S	22	72	Washington	S	20	68
Miami	R	25	77	Nice	S	19	66	Rome	S	20	68	Tel Aviv	F	23	73	Zurich	F	22	72

Temperatures at midday yesterday C–Cloudy Dr–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sunny Sl–Sleet Sn–Snow T–Thunder

A FINANCIAL TIMES SERIES: Part 7

EUROPEAN FINANCE AND INVESTMENT

SPAIN



The banks have been accused of failing to pass on to customers the benefit of official policy, writes Peter Bruce. But mergers this month promise a new spirit of competition. Meanwhile, Madrid still faces a monetary problem which, if unresolved, may mean realignment of the peseta in the ERM.

Cutting a new cloth

PREDICTING anything about Spain is a dangerous pastime. By the beginning of this year, the country's banking sector looked set to tumble into the European Community's single market just about intact.

• The merger fever of 1988 and 1989 was over. Much to the government'e irritation, bankers appeared to have decided that they were best off alone, reaping steady and sometimes extravagant profits from their traditional retail businesses, instead of coming together to form big institutions to compete in Europe.

• In the space of two weeks this month, thet scenario was turned on its head in spectacular fashion. First, at the beginning of May, the government took the initiative by announcing that it planned to merge all its financial institutions into a new body, the Corporacion Bancaria de Espana (CBE) which, with essete of Pta8,300bn ($78.5bn), would become the biggest in the country.

• Then out of nowhere, it seemed, Banco Central and Banco Hispano Americano, two large private-sector commercial banks, announced that they were going to merge, making *them* the biggest Spanish bank, with assets of more than Pta8,800bn. The finance ministry was ecstatic, and Spanish banking had fundamentally changed, with younger men rising to the top of the most powerful institutions in the land.

A new corporate cloth is being cut in Spain to fit the aspirations of its socialist rulers. Big banks, blessed with government forgiveness on the capital gains arising from asset revaluation when they merge, are much easier to control than the tiny fiefdoms run by stern, and usually conservative, patriarchs.

Two things had bothered the government. Enthnsiaetic about a united Europe, it has badly wanted to create Spanish institutione big enough to make their presence felt beyond Spain's borders. Mr Francisco Luzon, the 43-year-old president of Banco Exterior, the state-owned bank that will probably lead the new CBE, has begun to warn that, unless Spanish banks become big enough, they will not be able to wean themselves off their dependence on retail banking, and may he unahle to bank for those few Spanisb companies powerful enough to do business and invest abroad.

But Medrid also has a chronic monetary problem with its neighbonrs. Since entering the exchange rate mechanism of the European Monetary System two years ago, the peseta has stuck fiercely to the top of the 6 per cent band, within which it is allowed to fluctuate against most other ERM currencies. In the last few months, the Spanish have been forced into e particularly uncomfortable position against the French franc, which has been trading at the bottom of its band against the peseta.

The Bank of Spein has cut its official intervention rate twice this year, from 14.5 per cent to 12.75 per cent; but pressure on the peseta did not ease the first time, in March, and may not do so following the second cut, earlier this month. The removal in April of Spain'e last capital controls, to encourage an outflow of funds, has not worked yet either.

Spain's high real interest rates have made it extremely attractive to foreign investors, but the government worries that any large cut in interest rates would rekindle demand and send inflation rising again. The problem now is to find a non-inflationary way to bring interest rates down.

The solution seems to lie in the way the cutting is done, and the banks are the problem. Two of them, Banco Popular and Banco Santander, rank among the five most profitable in the world. The country is studded with more than 16,000 bank branches, not to mention savings banks, which still rely almost entirely on traditionally wide retail margins to make their money. In times of consumer recession, Spanish banks make profits by disposing of industrial or financial assets.

Foreign banks have made very little impact on the way Spanish banks make their money. In fact, they have tended to join the fray, which is not surprising because it is very lucrative. Retail margins in Spanish banking are higher than in any other member of the EMS.

This cosy lifestyle appeared to have met its end in mid-1989, when Banco Santander suddenly launched e high-interest-bearing current account. Most of the others, desperate not to lose customers, followed suit. Total net profits in the sector fell from 1.54 per cent of total assets to just over 1.5 per cent, after having risen from 1.4 per cent in 1989. Not surprisingly, the big commercial banks are now on the retreat, cutting back on interest offered to savers. But they have managed so far to avoid cutting their lending rates. The finance minister, Mr Carlos Solchaga, has accused them of deliberately not passing the benefits of official policy on to consumers.

Mr Solchaga turned to his old friend and former banking colleague, Mr Luzon, whom he had hired in 1988 to run and turn around Banco Exterior.

For 14 months, Mr Luzon's team at Exterior worked on plans to construct a large public-sector bank; and earlier this month Mr Solchaga announced that Exterior, the Caja Postal (the post office savings bank), the Banco de Credito Industrial and the Instituto de Credito Oficial (which groups the country's biggest municipal, agricultural and mortgage lenders) would pool their resources – a merger in all but name – to become the biggest banking empire in Spain.

The new bank, the CBE, would be, initially et least, a tool of government policy, and throw itself into competition with the private banks, to try and force commercial rates down. The sudden appearance of a merged Banco Central and Hispano Americamo seemed to complement the effort, and the authorities are now looking forward to a renewed spirit of competition among the banks, more confident following their merger than before about living with narrower lending margins.

It may well turn out to be true that bigger banks are better able to deal with lower retail lending rates, but the CBE is probably going to have to press its competitors hard. Central and Hispano, merged, are vastly overstaffed and overbranched, and face e painful period of rationalisation before Banco Central Hispanoamericano begins to flex the kind of competitive muscle the government hopes it will achieve.

In the absence of a quick solntion to the interest-rate dilemma, through the creation of bigger banks, some senior Spanish economist are also beginning to bet on e second, "fast track" possibility. Spain, they say, may have to realign the peseta upwards in the ERM.

With the currency overvalned and domestic consumer thirst epparently unquenched, following the lifting of credit restrictions, rapidly growing domestic money supply and credit make it impossible to be e helpful EMS member by cutting rates.

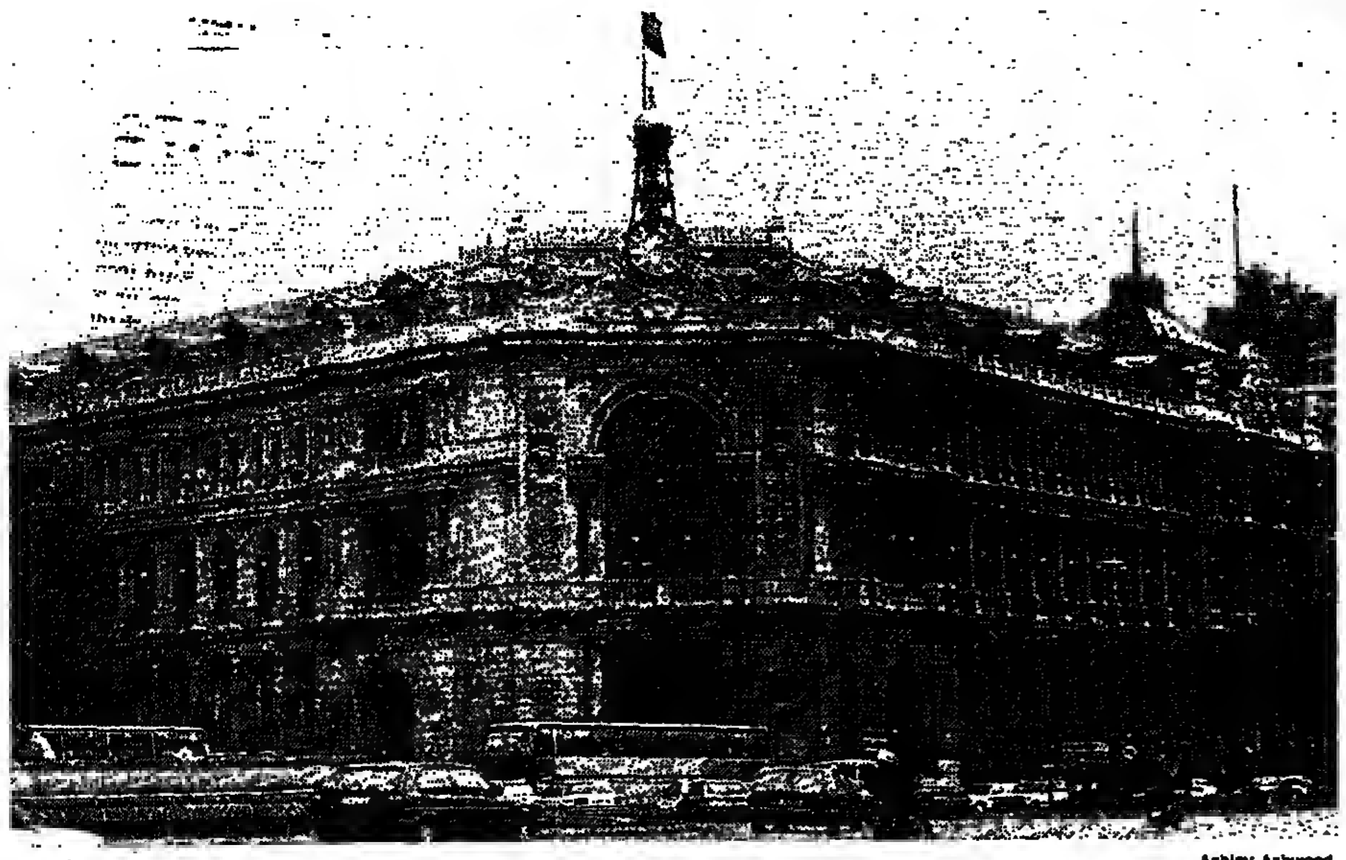
Silence from the business sector, the argument goee, probably means that it has nothing to complain about at the moment, and could absorb a stronger peseta. A stronger peseta would cheapen imports and lower inflation. Finally, higher ERM parities for the peseta would make it easier for the currency to move into e narrower fluctuation band.

Indnstry would, without doubt, complain about a stronger peseta, but if a realignment were really able to help cut domestic interest rates, the rage would be muted. Perhaps the government, now that its grand design for the banking sector is np and running, might feel bold enough to take the fast track as well.

IN THIS SURVEY

Editorial production: Martin Davies

The Barcelona stock exchange, like the other regional exchanges, is seeking a new role: page 5



■ The Bank of Spain has cut its official intervention rate twice this year, from 14.5 per cent to 12.75 per cent

Ashley Ashwood

THE ECONOMY

	1989	1990
Total GDP ($bn)	379.0	491.4
Real GDP growth (%)	5.2	3.8
GDP per capita ($)	9,669	12,472
Consumer prices (% change pa)	6.8	6.7
Unemployment (% of lab force)	16.9	16.0
Industrial Prod. (% change pa)	5.2	-0.6
Tourism receipts ($bn)	16.1	18.6
as % of GDP	4.2	3.8
Reserves minus gold ($bn, year end)	41.5	51.2
M1 growth (% pa, period avg)	16.1	22.7
Bank of Spain rate* (% pa, year end)	14.5	14.7
Govt bond yield (% pa, period avg)	13.7	14.7
Madrid SE index (% change over year)	+8.1	-24.8
Average exchange rates		
Pta/$	118.4	101.9
Pta/£	193.7	181.0
Pta/DM	62.9	63.0
Current account balance ($bn)	-11.6	-15.7
Exports ($bn)	44.4	55.4
Imports ($bn)	71.4	87.5
Trade balance ($bn)	-27.0	-32.1

Main trading partners (1990, % by value):

	Exports	Imports
France	20.8	14.7
West Germany	13.8	16.5
Italy	10.7	10.1
UK	9.0	7.2
USA	5.8	8.3
EC	69.4	65.2

*Now 12.75 per cent

Sources: IMF, Datastream, Economist Intelligence Unit

■ Carlos Solchaga, the Spanish finance minister

Terry Kirk

Richard Lapper examines the health of the banking sector

Branches may be pruned

TIMES ARE getting tougher for Spanish banks. As the country prepares for the single European market in financial services, margins on core lending activities are being eroded, and rising debt levels are also hitting profitability.

Banks are being forced to look at ways of making their extremely dense branch networks more efficient. According to Mr Joaquin Tamames, an analyst with the AXEL Group, "the market will get tougher and this will affect banks in both the raising of capital and deposits".

In 1990, though, total net profits, as a percentage of total assets, fell from 1.54 per cent to 1.52 per cent, having increased from 1.4 per cent in 1988, according to figures produced by the Associacion Bancaria.

Spanish banks have traditionally been very profitable, because they have been able to secure cheap deposit bases and lend at relatively expensive rates. This lending margin was equal to 4.4 per cent of total bank assets in 1989 – the highest rate in the EC outside Portugal and Greece.

Bank overcrowding

	Inhabitants per branch
Luxembourg	1,260
Spain	2,339
Denmark	2,645
Belgium	2,747
Netherlands	3,712
UK	3,920
Ireland	6,050
Greece	5,377
France	5,680
Italy	5,832
Portugal	5,937
Germany	8,382

Source: EEC

Earlier this year, a survey listed two Spanish banks which specialise in retail business, Banco Popular and Banco Santander, among the five most profitable banks in the world.

Last year, however, profitability was adversely affected by competition, especially over interest-bearing current accounts. Although Barclays Bank's Spanish subsidiary started the ball rolling in 1986, *the war of superaccounts, or guerra de supercuentas*, really started in earnest in September 1989, when Banco Santander increased the rates on its standard current account. Santander launched a nationwide advertising campaign – modelled on Barclays own approach – to drive the fact home.

Several of Santander's leading *competitors eventually* followed suit, but the gradual decline in Spanish interest rates over the past year has reduced the room for manoeuvre available to banks. Analysts believe that the war is over.

The results have been quick in coming. The decision by Banco Central and Banco Hispano Americano to merge earlier this month is, in part at least, a response to their belief that they need to be bigger in order to be able to spread their business beyond their traditional retail boundaries. That realisation was also hammered home by a decision by a Government increasingly frustrated with the way the private banks seemed to be barricading themselves in their own fiefdoms, to merge all the public banks into the biggest bank in the country, led by Banco Exterior, which, the authorities said, would "act belligerently in the markets".

Nevertheless, Mr Tamames, believes Santander has emerged *as the clear winner, increasing* its market share among the so-called big seven Spanish banks by 1.7 per cent between December 1989 and September 1990. Santanders private sector deposits rose by 21 per cent over this period.

At the beginning of April, Santander announced a cut in its mortgage lending rates, indicating to some observers that the competition may switch to that front.

However, that seems unlikely. Bank lending for personal loans has increased in the past two to three years, but loans to individuals still account for less than 30 per cent of outstanding bank assets. In addition, the mortgage market is still heavily dominated by savings banks such as the Caja de Madrid and the Caixa and the state-run *Instituto Hipotecario Oficial*.

Unlike some banks, Banesto did take part in the deposits war, marginally increasing its market share; but its president, Mr Mario Conde, says: "A credit war would be completely mad. Banks biggest problems are always bad debts."

Although Spain should avoid a recession (the government expects economic growth of 4 per cent this year), the number of bad debts is rising.

Instead, competition is likely to focus on other areas. Banks will attempt to increase the sales of non-financial products, such as life insurance. Already, alliances between banks and insurers have been mushrooming, with banks receiving commissions for policies sold through their branches.

Santander has developed relationships with the US company *Metropolitan Life*, with which it has formed a joint venture. Mr Matias Rodriguez Inciarte, executive vice-president of Santander, says: "We think it is a field well worth pursuing in the future. By any international standards, insurance is underdeveloped in Spain."

He believes that it is relatively easy for bank staff to sell life products that have a financial component, such as many savings oriented contracts.

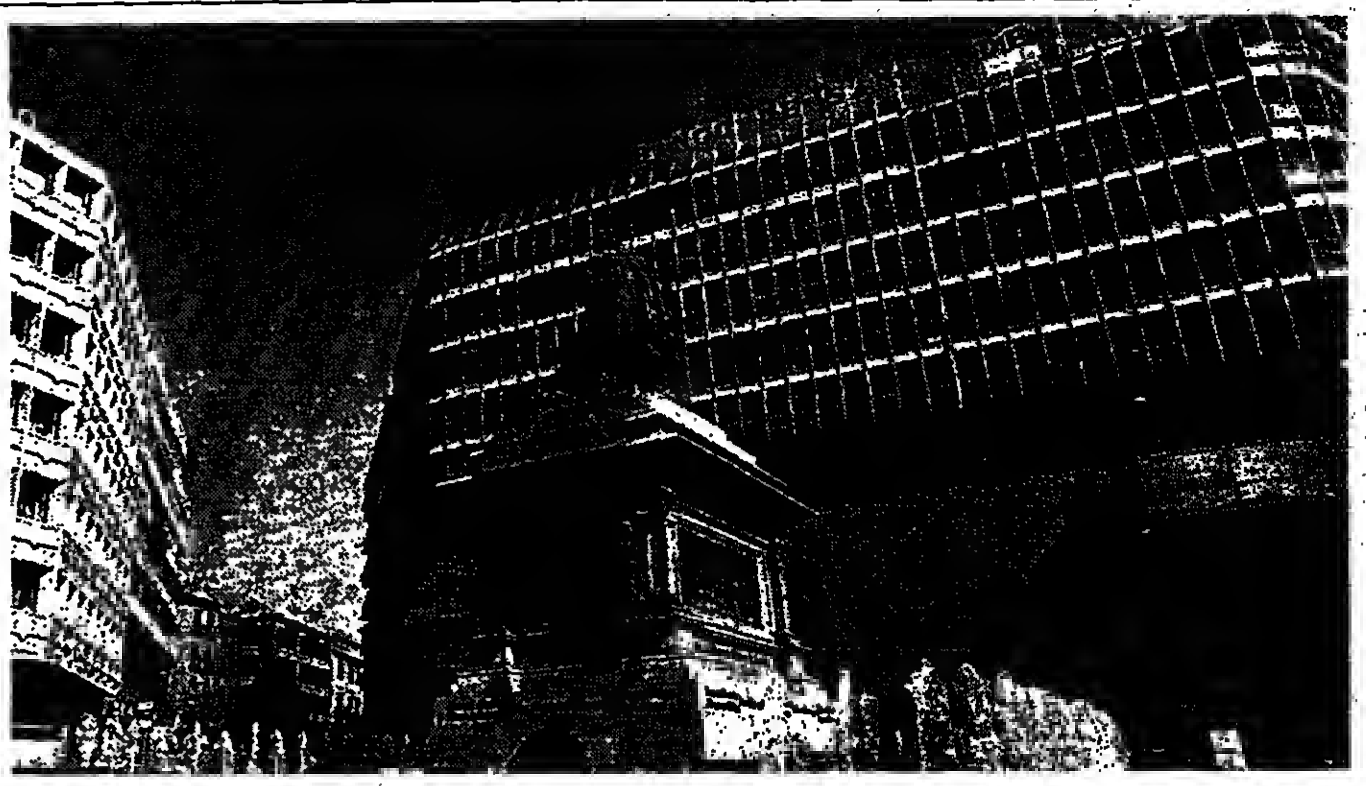
Banks are also likely to seek to reduce their overheads. Figures produced by the Associacion Bancaria show Spain to be the most heavily banked country in the European Community. Average expenses are higher than in every European country apart from Ireland and the UK (both of which compensate by lending more profitably and by selling other non-financial services) and Portugal.

Traditionally, Spaniards have tended to bank with those *branches closest to their* homes, and convenience has been an important element in influencing which institution customers choose to bank with. Spain has more banks per inhabitant than any country, apart from Luxembourg, and on average its 16,623 branches make loans of only Ecu8,483,000 - less than half the amounts loaned by Italian banks, and considerably lower than any other country except Greece.

Bankers such as Mr Rodriguez believe this pattern will change as Spain becomes a more urbanised society, and customers begin to make more use of mechanised cash points. Mr Tamames says that many more banks will rationalise their operations: "Smaller but better qualified staffs, backed up by data-processing systems and less centralised decision-making, are necessary."

Santander has around 1,000 branches, compared with the 2,000 to 3,000 branches operated by BBV, Banesto and Banco Central, so is under less pressure to cut its network.

In the short term, banks will seek to sell off subsidiary networks. Last year, for example, Banco Santander sold its Banco Commercial Espanol brand to Crédit Lyonnaise. This year, Banco Santander sold another of its subsidiaries, Banco Jover of Catalonia, to Crédit Lyonnais. Banesto is to sell its Catalan unit, Banc Catala de Credit to Istituto Bancario San Paolo di Torino of Italy.



Banco Santander really started the superaccounts war, when it increased its current account rate in 1989

Spain's top financial institutions (Pta bn)

	*Assets	Equity capital	Deposits	No. of branches
1 Central Hispanoamericano†	8,800	490	5,769	4,612
2 Corporacion Bancaria de Espana	8,300	485	3,345	1,303
3 Banco Bilbao Vizcaya	7,700	530	5,372	2,785
4 La Caixa**	5,200	266	3,612	2,296
5 Banco Santander***	3,100	408	3,482	1,365
6 Banesto	3,600	375	2,792	2,681
7 Caja Madrid**	2,500	185	1,838	937
8 Banco Popular	1,400	150	1,829	1,657

†Assuming merger between Banco Central and Banco Hispano Americano is completed *As at 31.12.90 **Savings bank
***Before 10% acquisition of First Fidelity
Source: FT estimates

Foreign banks have not found it easy to operate in the Spanish market

Equity can help offset entry costs

"ANYONE CAN make projections in Spain, and on paper it looks great," says the chief executive of Barclays Bank in Spain, Mr Carlos Martinez Campos. But in practice foreign banks have found operating in the Spanish market no easy task.

Indeed, Mr Martinez Campos' bank is one of the few foreign entrants to have made worthwhile progress since its establishment in 1983. Even then, its branch network of around 250 – established from virtually zero in 1983 – is dwarfed by the operations of Spain's big seven domestically-owned banks, which account for around 80 per cent of commercial bank assets.

Although Barclays' Spanish operation made a very respectable £41m profit in 1990, 10 of the 46 foreign banks licensed to operate in Spain incurred losses last year. By contrast, only two of about 100 Spanish banks lost money.

Until recently, entry by foreign banks was highly restricted. Only a few foreign banks were allowed to operate under the government of General Franco. Foreign banks have been allowed to enter since the late 1970s, but the number of branches they have been allowed to establish has been restricted to three.

Exceptions have been those banks that have taken over the licenses of local banks that were liquidated following Spain's banking crisis in the early 1980s. Barclays bought the operations of Banco de Valladolid; Citibank bought Banco de Levante; and Banque Nationale de Paris bought Banco Lopez Quesada.

Barclays was able to build up its branch network by backing up its investment in a retail network with skilful marketing of a wide product-range, at a time when when Spanish banks lagged behind their European competitors.

The bank anticipated by two years the much broader changes in Spanish banking of the late 1980s, when it launched its interest-bearing current accounts in 1986. Its decision to introduce a distinctive feel to its branches, making strong use of the bank's logo and turquoise colour, helped to establish a brand image which was supported by aggressive advertising.

According to Mr Martinez Campos, a measure of Barclays' success in this respect is the adoption of its methods by leading Spanish banks. Banco Santander has been a particularly adept disciple.

But other banks have been less successful. According to Mr Joaquin Tamames, of the AXEL Group, some of the US banks have expected Spanish bank customers to behave like their American counterparts, and have opted to scale down their retail operations. Moreover, with local banks now much quicker off their feet than they were in the early 1980s, foreigners no longer have the same competitive advantages.

Nevertheless, over the past two to three years, French, Italian, German and British banks have been the most prominent investors of late. Last year France's third biggest bank, Crédit Lyonnais acquired a Banco Santander subsidiary, Banco Comercial Espanol, and aims to open 250 branches by 1992, compared with 129 at present. Crédit Lyonnais followed this up by buying another Banco santander subsidiary, Banca Jover of Catalonia earlier this month.

Abbey National has entered a joint venture with the Swiss insurer, Winterthur. It hopes to sell loan products via Winterthur's extensive network of offices in Spain

Deutsche Bank has recently increased its participation in the mainly Catalonia-based Banco Comercial Transatlantico from 65 per cent to 96.8 per cent. National Westminster is another European bank that has recently set up operations in Spain, taking over the operations of Balearic Islands-based Banco March, on the Spanish mainland.

Britain's Abbey National has entered into a joint venture with the Swiss insurer, Winterthur, whereby it hopes to sell loan products via Winterthur's extensive network of local offices in Spain. The Italian bank Istituto Bancario San Paolo di Torino has also been a buyer, taking Banc Catala de Credit off the hands of Banesto, again earlier this month.

The preparedness of Spain's bigger banks to unload some of their subsidiaries will continue to provide opportunities for foreign banks. Crédit Lyonnais paid Pta50bn ($472m) for Banco Comercial, 19.5 times the bank's 1990 earnings.

Meanwhile, there are signs that foreign banks, and financial services companies more generally, are beginning to respond to the problem of the high entry cost of competing in Spain by boosting their equity holdings in the country's banking groups. By the beginning of April, foreign investors controlled 15.79 per cent of the big Spanish banks.

■ From Japan, life insurers Nippon Life and Toho Mutual Life each own 2 per cent of Banco Bilbao Vizcaya and Banesto respectively – holdings worth Pta14.2bn and Pta7.5bn respectively. Sumitomo holds 0.5 per cent of BBV.

■ French and German investors have interests in Banco Hispano Americano and Banco Central, whose merger was recently announced. Commerzbank had an 11.4 per cent stake in Banco Hispano (worth Pta28.5bn). French investors appeared to be focusing on Banco Central. Bouygues, the construction company, Elf Aquitaine, the oil company, and Union des Assurances de Paris, the insurer, owned 4.5, 3 and 3 per cent respectively of Central.

■ The giant insurer Allianz owns 3.3 per cent of Popular (a stake valued at Pta10bn), a bank with which it has also struck a marketing deal to sell life insurance products. Hipobank also owns 1.7 per cent of Popular.

■ Other significant investors include Metropolitan Life, the US life insurer, which owns 0.5 per cent of Banco Santander, and Royal Bank of Scotland, which has a 2.5 per cent stake in the same bank. Metropolitan and Santander have set up a joint life assurance venture, while Santander has a European marketing agreement with the Scottish bank.

Richard Lapper

Profile: Alfonso Escamez

An ace from his sleeve before the final curtain

THE CAREER of Alfonso Escamez spans 60 years of Spanish banking. It is suitable that he should finally bow out as the grand old man of domestic finance in less than a year's time, on the eve of the 1993 Single Market, to allow a new generation to face a new economic environment.

As the curtain falls on Mr Escamez, the applause sounds rapturous. He plncked one final ace from his sleeve, and with his last flourish had his Banco Central absorb Banco Hispano Americano. He thus leaves the stage as the number one domestic banker, the chairman of Banco Central Hispanoamericano, the biggest private financial institution in Spain.

It matters little that he will be succeeded as chairman of the merged bank by Hispano'e Jose Maria Almusategui, that it will be Almuesategui, 20 years his junior, who will be dealing with the mechanics of the fusion, and that it will be Hispano people who, in all probability, will be calling the shots for the rest of the 1990s. Mr Escamez, right now, has the spotlight all to himself.

'I was brought up in area that was arid, rocky and treeless...'

The exit, right at the top, crowns a career that started right at the bottom. Mr Escamez, who was 75 at the beginning of this year, began working at the age of 12 as a messenger in a bank branch of his home village of Aguilas, in the province of Murcia, South East Spain.

"I was brought up in area that was arid, rocky and treeless," Mr Escamez says. "Now there is plastic sheeting everywhere and intensive cultivation beneath the plastic."

His home region's upward path towards prosperity mirrors a personal story that, by dint of hard work, an obsession with detail, a highly retentive memory and a host of other assets, including something of an autocratic nature, earned him the Central chairmanship in 1973.

Self-educated, he now holds honorary degrees from Spanish universities, is a singular patron to Madrid's main campus, and is a considerable cultnral driving force aiding museums and orchestras around the country. As the man of the people he professes to be, he likes talking about human nature, about the skills that lie behind a personalised service and about the need for sympathetic bank branches that serve local communities euch as the one where he grew up. These are not the sort of priorities of an MBA course.

By the 1960s, as Spain began accelerating into development, Mr Escamez was already effectively running Banco Central. His managerial talents were recognised by the bank's main shareholders, members of the domestic financial oligarchy whose seats on the board passed from one generation to the next, and they were sponsored in particular by Mr Ignacio Villalonga, a true blood member of that clan who made him his protégé.

Mr Escamez, rotund and avuncular, is fond now of formulating *bon mots* in his squeaky voice thet none would dispnte: "One of the advantages of being a veteran is thet you have seen so many errors being made."

Those who see him in a less favourable light argue that he has failed to take opportunities in the same way that he has avoided making mistakes.

"When yon have been around as long as he has, and you've been in the business so long, your vision is biologically and intellectually limited," says one rival bank chairman. "Instead of thinking about the next 20 years you are thinking about the next two."

It would be churlish to deny Mr Escamez the immediate, necessarily fleeting, moment of glory; but the longer effects of his time at the top do give ground for some questions. Right at the end of his career, he took the plunge with the ahsorption of Hispano Americano leaving it for others to see the process through. In the recent past, however, Mr Escamez had kept well clear of the major developments of Spanish banking, and Central appeared to be standing still while other institutions were moving fast.

Was Mr Escamez's strategy a sign of creeping paralysis, or was it yet another example of his legendary prudence? analysts have asked themselves. Is the absorption itself no more than a late defensive move, a response to developments that appeared to be overtaking the bank?

Central did not, for example, pitch into the debilitating high-street bank battle for deposits that was prompted hy Banco de Santander's introduction of super accounts. From the outset, Mr Eecamez considered that the new prodnct would have a "frankly negative" effect on operating costs. Months later he believed his judgment had been vindicated when fellow bank chairmen began to confide to him that a ceasefire had to be called "before the [super accounts] affect even more dangerously the waterline of the banking system."

Mr Escamez was especially concerned about the transformation costs of the domestic banks, which he says constitutes the system's "greatest weakness from the general point of view".

When Central released its consolidated results for 1990, it claimed that the decision to stay on the sidelines during the deposit-rate war had enabled it to lift its financial margin by 11 per cent to Pta190bn.

Critics, however, suggested that Mr Escamez's prudence might have caused Central to lose market quota by lowering its image before a public that was fascinated by the so-called *super cuentas*.

Much in the same vein, Mr Escamez refused to follow the path forged by Banesto's Mr Mario Conde, who revalued his bank's industrial assets and brought them all under the same corporate roof. He instinctively distrusted such revaluations, for he believes that the "historic price" of share titles is an inbuilt protection against market upheavals.

'...Now there's plastic sheeting everywhere and cultivation below'

Mr Escamez's caution again appeared justified, at least in part. The Gulf crisis knocked down share prices, and Mr Conde fretted for weeks about the possibility that Banesto might have to provide for the low market value of its industrial assets. Post-Gulf crisis recovery, however, indicated that Mr Conde's bold strategy had merits that a bank such as Central, with industrial assets greater than those of Banesto and said to represent 3 per cent of Spain's GDP, ehould note with care.

Undoubtably the reorganisation of industrial assests will head the agenda of the new Central Hispanoamericano team. Mr Escamez's highly personalised grip on the Central empire – he himself presided over the energy group Cepsa and over the insurer Vitalicio – is now loosened. His successors have a tall order in following his extraordinarily long act.

Tom Burns

Richard Lapper explains why banks and insurers have been developing closer ties

Agents' commissions add to high costs

IN EUROPE, the terme *bancassurance* and *Allfinanz* have become synonymous with the growing trend towards the integration of many banking and insurance activities, reflecting the prominence that leaders of the French and German financial services industries have given to the idea.

But *bancassurance* is also advanced in the less well developed Spanish market, where almost all leading banks are either actively selling a range of life, motor and house insurance across their counters, or examining the possihility of doing so.

Banks have been finding that the margins on their core lending business, traditionally among the highest in Europe, have declined following the introduction of interest-bearing current accounts. At the same time, partly because their hranch networks are more dense than in any other European country, Spanish banks carry high overheads, and have been forced to look beyond deposit-taking and lending activities in order to increase prodnctivity.

According to Mr Mario Conde, president of Spains second biggest bank, Banco Espanol de Credito (Banesto), "to widen our margins it is necessary to increase the number of non-financial products that we sell".

Insurers are also under competitive pressure, with a growing number of more efficient European companies entering the Spanish market. Like their counterparts in France, Germany and Italy, Spain's insurers have traditionally distribnted their producte via networks of semi-independent agents. The hefty commissions on sales which these agents earn – sometimes amounting to 25 per cent of premiums – are one of the main reasons why Spanish insurers carry such heavy expenses.

Problems are particularly acute for companies such as the Banesto subsidiary, La Union y El Fenix, which have long-established agency networks. According to Mr Angus Runciman, analyst with BNP Securities in Londoo: "The general agents sell exclusively Fenix products, hut operate under their own title and jealously guard their territorial exclusivity. Since commissions are calculated simply as a percentage of premiums, the agents have done very well at Fenix's expense." For simpler personal lines and life products, bank distribution ls cheaper.

As a result of this convergence of interests, banks and insurers have been developing much closer ties. This has been easiest for those banks that already own insurers, such as Banesto (La Union y El Fenix), Banco Central (Group Vltalicio) and Banco Hlspano Americano (La Estrella), and Banco Bilbao Vizcaya (Aurora Polar and Euroseguros).

Mergers hetween Spanish banks have brought short-term compllcations with them.

Spanish banks carry large overheads, and have been forced to look beyond daposit-taking

When Banco de Bilbao and Banco de Vizcaya merged to form BBV in 1988, they had three losurance companles between them. One, at least, had to go, and Plus Ultra was sold off to Norwich Union. This month's merger of Banco Central and Hispano Americano will probahly result in either the Vltalicio or La Estrella groups being hived off too.

Although the leaders of these groups have in the past been reluctant to use bank distribution channels where the lnterest of insurance agents might be affected, this is now beginning to change. Union y Fenix recently opened a joint venture with Banesto, aiming specifically at the banks customers and employees.

BBV set up its own lnsurance subsidiary, Euroseguros, three years ego, to sell life insurance products. lt proved to be a highly successful vendor of a short-term life insurance policy called *primas unicas* before tbe product was scrapped last year. Last month, BBV began to sell a new range of Euroseguros life and simple home-contents insurance policies via the branch network. BBV has appointed Mr Javier Chichique, formerly boss of the Spaoisb subsidiary of Germany's Allianz company, to head up the new campaign. BBV will continue to sell more complex products which give rise to a greater volume of claims via its Aurora Polar subsidiary.

Other insurers and hanks are also busy either establishing alliances or setting up new banking and insurance subsidiaries. Banco Santander, one of Spains most aggreeslve end successful banks, has set up an insurance joint veoture witb the US company, Metropolitan Life, whose life insurance products it sells via its branch network. Banco Popular bas a similar agreement wlth the German insurer, Allianz.

Plus Ultra, the lnsurance subsidiary of the UK company, Norwich Union, has developed one of the most sophisticated bank-insurance relationships. Banca Catalana, a Barcelona-hased bank owned hy BBV, sells Plus Ultras life insurance savings products directly to its own customers from e window in each branch office.

At the same time the two companies have created a joint-venture insurance broker, called Multirisc, to sell all personal-lines insurance which contain an element of risk - home contents, home etructure, liability, motor, travel assistance and others.

Multirisc products are sold via the same insurance window of Banca Catalana branches, but claims are handled directly by Plus Ultras own offices. Each Banca Catalana branch office is linked to Plus Ultras Madrid headquarters via a computer system, whicb allows bank staff to provide quotes, agree limits and coverage for a range of producte almost lnstantaneously. Premium payments are processed directly from the customer'e bank account.

"Not a slngle paper is moved," says Plus Ultra president Gerardo Arostegui, who claims that the software, developed by Plus Ultra technicians before its purchase by Norwich Union, is the most advanced in Europe.

Since Banca Catalana's operations are limited to Catalonia, Plus Ultra is now negotiating with a number of Spanish and European banks about establishing similar alliances elsewhere in Spain.

Barclays Bank, the most successful foreign bank in Spain, has been examining the possibility of selling life insurance over the network of 250 hranches that it has established in Spain since the mid-1980s.

"We wanted to complete the array of financlal products," says the head of Barclays Spanish operation, Mr Carlos Martinez Campos, "but in the end we declded to establish our own operation. It was difficult to reassure ourselves otherwise thet we would have had full ownership of our client list."

Mr Martlnez Campos says that non-financial products euch as life assurance are becoming so important that the bank will eventually have to change its image, presenting itself as a financial-services company ratber than just a bank.

Insurance: despite upheaval in the life sector and a crisis in motor coverage . . .

Hopes rise for a recovery in profits

SPAIN'S INSURANCE industry appears to be back on track after two recent hiccups. It continues to grow rapidly, especially in the life sector, as under-insured Spaniards begin to catch up with the rest of Europe.

There are now hopes that profitability, dented by the row over *primas unicas*, the controversial short-term life insurance policy, and the mini-crisis in the country's motor insurance industry, could begin to recover.

Between 1983 and 1989, the Spanish insurance sector was one of Europe's fastest growing financial-services markets, with growth rates on average at least 7 per cent a year in advance of the steady expansion in the national economy. Last year, according to provisional figures, premium income earned by the country's leading 76 insurers (which account for the bulk of the sector) rose by 16.4 per cent in nominal terms to Pta1,211,912m, ($11,433m), well ahead of growth in GDP.

The increase was achieved despite strong rate competition, especially in the larger industrial-risks area, where softness in the European reinsurance market is feeding through into low domestic rating.

In the competitive commercial-risks sector, rates have fallen by about 50 per cent since 1985, according to one Madrid-based broker.

Even taking into account recent growth, Spain – by European standards – is still a relatively underdeveloped market, indicating that there is considerable potential for further growth. According to a recent report by investment house Goldman Sachs: "There is no reason, considering the dynamics of the market, why this should not continue for the next five to 10 years."

Spaniards buy less than half as much non-life and less than a third as much life insurance as British customers.

Moreover growth has been accompanied by profitability. Insurers in some sectors have have produced technical profit margins of over 20 per cent of premiums in recent years, impressive rates of return in a country where profitability in general has been depressed of late.

Against this background, the long-term significance of the recent controversy over *primas unicas*, the short-term savings policy sold in large quantities by Spanish insurers until late 1989, wanes slightly. Even so, provisional figures for premium income for the leading 76 Spanish life insurers during 1990 (accounting for the bulk of income in the sector) indicate the scale of the dislocation caused when the Spanish tax authorities declared that the policies were not legitimate life insurance policies, and that income from the policies was taxable.

Spaniards buy less than half as much non-life and less than a third as much life insurance as British customers

Life preminms fell from Pta2,600bn in 1988 to Pta1,900bn in 1989 and Pta638bn in 1990. Naturally, companies specialising in *primas unicas* were hit hardest. Euroseguros, the insurance arm set up by Banco Bilbao Vizcaya (BBV) to sell savings-related life products, saw its sales decline from Pta261im in 1988, to Pta143bn in 1989, and Pta105bn last year. Caixa Pensiones Barcelona suffered an ever more precipitous fall in its income, with income collapsing to a mere Pta83bn, over 90 per cent less than in 1989. Caixa Cataluna saw its premium income also fall dramatically to Pta29.4bn, more than 80 per cent less than in 1989.

Worse still, many of the insurers that sold *primas unicas* are locked into potentially long-running litigation with the Ministry of Finance and Economy over the payment of taxes owed on sales of the policies – amounting to around Pta400bn. It could be at least five years before any of these problems are sorted out.

The motor-insurance sector, which generates over 40 per cent of premium income in the non-life sector, has also produced some acute problems. The situation in motor is "absolutely dramatic", says Mr Gerardo Arostegui, ths president of Plus Ultra, the subsidiary acquired last year by Norwich Union of the UK.

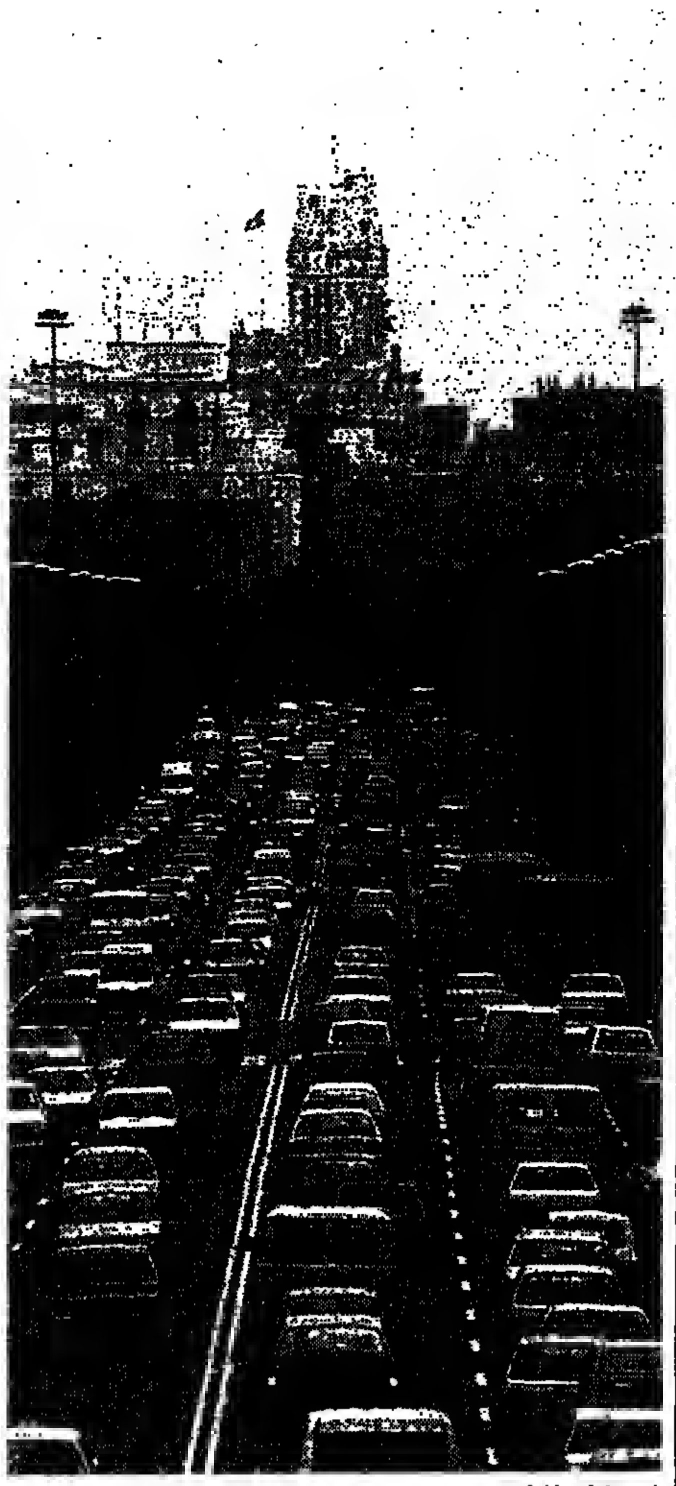
Underwriting losses in the motor sector amount to an average 125 per cent of premiums, and for many of Spain's smaller companies could be as high as 160 per cent. While rate competition has depressed premium levels, rednclng income, claims costs have risen sharply, partially reflecting high accident rates and rapidly escalating court awards to accident victims.

In 1990, Spanish anthorities recorded 6m accidents, compared with the 14m cars registered in the country. In France, by comparison, there were 5m accidents, compared with 29m cars registered. The poor state of many of Spain's roads also contributes to problems, while high awards by judges to accident victims have also added considerably to claims costs. Many companies, especially those dependent on motor business, are in particular difficulties. Goldman Sachs claim that the industry in general could be under-reserved to the tune of between 25 and 30 per cent.

Insurers, though, accept that both problems have brought some benefit. On the one hand, by selling *primas unicas* so successfully via banks, lifs insurers discovered that banks can be very effectivs outlets for sales of lifs insurance policies. And in the last year a number of new distribution alliances havs bsen formed, which should help increases sales volumes of the risk-based life policies (such as endowment policies) being developed by the industry.

On the other hand, the difficulties of the motor sector is helping to reduce the number of insurance companies in Spain, producing rationalisation which should eventually lead to a more efficient and fitter industry. Many of the 151 companies put into liquidation since 1984 are motor insurers. (The number of insurance companies in Spain has fallen from 558 in 1984, to 455 in 1990, according to the Ministry of Finance and Economy). Spanish market sources expect that as many as 100 more companies could disappear in the next one to two years.

Richard Lapper



Ashley Ashwood

■ The motor-insurance sector has produced acute problems. Accident rates and court awards to accident victims are high

The challenge from foreign insurers

Swiss set the pace

RAPID GROWTH, rates of return in excess of 20 per cent and enormous future potential make the Spanish insurance market one of the most attractive in Europe, and something of a battlefront for insurers seeking to build a continent-wide presence.

French, German and Italian giants have all been active. Unexpectedly, though, three companies from a non-EC country, Switzerland, have been making the strongest running recently, while a British company, Norwich Union, has made one of the biggest investments in the last 18 months.

Two Swiss companies – Zurich and Winterthur – are among Spain's top five non-life insurers; while a third Swiss insurer, Schweiz (a subsidiary of the giant reinsurer, Swiss Re), is one of the fastest growing foreign insurers in Spain. Schweiz increased its non-life premium incoms last year by over 40 per cent, to Pta32,236m ($304m), nearly three times its income in 1988.

Both Zurich and Winterthur have long-established operations in Spain. Zurich, the fourth biggest insurer in the country, made strong progress in the life insurance area in 1990, increasing premium income there by nearly 57 per cent.

The local subsidiary of Winterthur has been particularly aggressive in the motor market, local market sources claim. Winterthur's premium income in non-life increased from Pta31,482m to Pta36,651m in 1990. Winterthur has been established in Spain for over 50 years, but has begun to chase business much more aggressively since the mid-1980s.

The company's extensive agency network means that there is a relatively low-cost distribntion system. Winterthur has 3,000 agents under its direct control, which depend on 40 regional offices.

British companies have been criticised for their failure to make progress in Europe, so Norwich Union's acquisition of one of Spain's blue-chip companies, Plus Ultra, is to some extent surprising. Norwich Union, one of the UK's biggest mutuals, paid over £200m for Plus Ultra last year, coming under fire from some quarters for an amount nearly two times the premium income of Pta23,877m earned in 1990. But the company insists that the investment represents money well spent, and sees Plus Ultra as a key piece in a broader strategy to develop its European operations.

SPAIN'S TOP 10 NON-LIFE INSURERS
by premium income (*Pta millions*)

	1989	1990
Mapfre	72,608	91,813
Mutua Madrilena	41,851	47,540
Banesto	45,200	46,422
Zurich (Switzerland)	36,784	40,115
Winterthur (Switzerland)	31,482	36,651
Banco Central	31,851	34,836
Allianz/RAS (Germany)	29,185	33,085
Schweiz (Switzerland)	22,782	32,236
Santa Lucia	25,948	30,153
Catalana/Occidente	27,736	30,064

Source: Mapfre

"Plus Ultra is a unique company in Spain with very high-quality management," says Mr Bob Burke, Norwich Union's general manager with special responsibility for Europe.

Mr Burke said that Norwich had been examining options in Spain, as part of a general plan to broaden its European operations, when the company was tipped off that Banco Bilbao Vizcaya was abont to unload Plus Ultra – surplus to requirements following the merger between Banco Bilbao and Banco Vizcaya, which created BBV in 1988, and which brought two other insurance companies, Euroseguros and Aurora Polar, under the same ownership.

With the market expecting a large French or German company to take over, Norwich moved very fast. "They didn't think a British company would be interested," said Mr Burke.

Originally owned by Allianz, before being owned by Basque business interests (and eventually by Banco Vizcaya, in 1977), Plus Ultra developed an expertise in commercial-lines insurance.

Norwich Union was particularly impressed by a group of young executives around the company's president, Mr Gerardo Arostegui, who had drawn up a strategy to develop the company's personal-lines business in the mid-1980s, to produce a more broadly-based and diversified company.

More volatile and competitive commercial-lines business now accounts for about 35 per cent of Plus Ultra's book, compared with 60 per cent five years ago.

At preliminary meetings – often held in Paris, partly to deceive the Spanish press corps – senior managers from both companies established a good rapport.

"We were very good at getting on well together," says Mr Burke. Plus Ultra, for its part, was highly impressed with the thoroughness of Norwich Union's due diligence procedure.

Strategically, the real worth of Plus Ultra lies in the strength of its distribution network. "We think the prospects are tremendous. It is a good company that has a good relationship with distribution channels – agents and banks," said Mr Burke.

In Catalonia, Plus Ultra has developed a particularly sophisticated tie, underpinned by state-of-the-art information technology, with the Banca Catalana, a regional bank which is a subsidiary of BBV. "It was the simplicity of the thing that appealed to me," says Mr Burke. "I've been around a long time, but I never thought it would be in Barcelona that I would find something that would really impress me."

With the backing of Norwich, Plus Ultra is now actively seeking partners to develop the co-operation elsewhere in Spain. Norwich Union, meanwhile, is keen to look at the possibilities of using the technology elsewhere in its European operations.

Richard Lapper

Richard Lapper traces the extraordinary success of Mapfre

From semi-bankrupt to star

"IT IS a unique case in the history of world insurance," observes one prominent Spanish insurer, commenting on the extraordinary growth of Mapfre, Spain's biggest insurance company.

Within 40 years, Mapfre has been transformed from a semi-bankrupt insurer of workers' compensation risks to become the country's most successful insurer. Last month, the group posted a 37 per cent increase in pre-tax profits for 1990.

Business rivals may dislike Mapfre's stubborn independence – the company has never joined the country's industry association Unespa, for example – but most respect its efficient management and commercial acumen.

"Mapfre has done a great job in its professionalism, training, and the way it decentralises decision-making. It is growing at an incredible pace. It is the only insurance company in Spain that has a real international strategy," says Mr Manuel Vivas, general manager of brokers Gavial Alexander.

Much of this success is attribntsble to the singular leadership of Mr Ignacio Hernando de Larramendi y Mootiano, the company's veteran president who retired earlier this year.

Idiosyncratic and publicity-shy, Mr Larramendi was inspector of insurance at the economy ministry when, in 1955, he was invited by Mapfre's board to take control of the company.

Founded in 1933, Mapfre was by the mid-1950s verging on bankruptcy. Mr Larramendi insisted on an austere approach. "The first thing he did," recalls Mr Alberto Manzano, general secretary of Mapfre, and an authority on the history of the company, "was to reduce his own salary and sack the company's chauffeur."

Mr Larramendi eschewed the expense-acconnt lifeatyle favoured by his competitors. Within the company, he encouraged his senior managers to share the services of secretaries, establishing a business ethic which permeates every aspect of the company's activity.

His other main priority was to diversify the company's underwriting activity away from the workers' compensation business, which in 1955 accounted for 75 per cent of its premium income.

Mapfre began insuring lorries and buses and writing life insurance in the then embryonic local life market. In the mid-1960s, the company began writing motor insurance and industrial risks business.

Mr Larramendi emphasised the importance of tight underwriting standards. Influenced by the experience of US insurers such as Factory Mutual, he introdnced risk-control techniques, offering a reduction in premium to companies that agreed to introduce sprinkler systems to reduce the risk of fire, or safety systems to reduce the risk of accidents.

Mr Larramendi eschewed the expense-account lifestyle favoured by his competitors

The result was a tightly run, efficient company with good underwriting results. Mapfre's expense ratios (expenses to premiums) are among the lowest in the Spanish insurance industry, especially in the troubled motor sector.

According to Mapfre Corporacion's general director, Mr Domingo Sugranyes, Mapfre's organisation minimises hierarchy and maximises the involvement of middle management in strategic thinking: "Bureaucracy exists, but we try to make it as little as possible."

Three other steps have been pivotal for Mapfre's later growth in the 1970s and 1980s. Like other Spanish companies, it had distributed its insurance products via semi-independent agents to which it paid commissions on sales. In the late 1960s, Mr Larramendi began to increase control over this distribution network, reducing the independence of agents and making their payment dependent on underwriting results as well as on sales of insurance.

He also secured a strong capital base, which paved the way for the rapid expansion of the last ten years. The company's investment strategy has been successful, too, with prime-site properties in Madrid and Barcelona rising in value in spectacular fashion in the late 1980s. Organisational reforms introduced by Mr Larramendi in the late 1970s have also proved to be equally crucial.

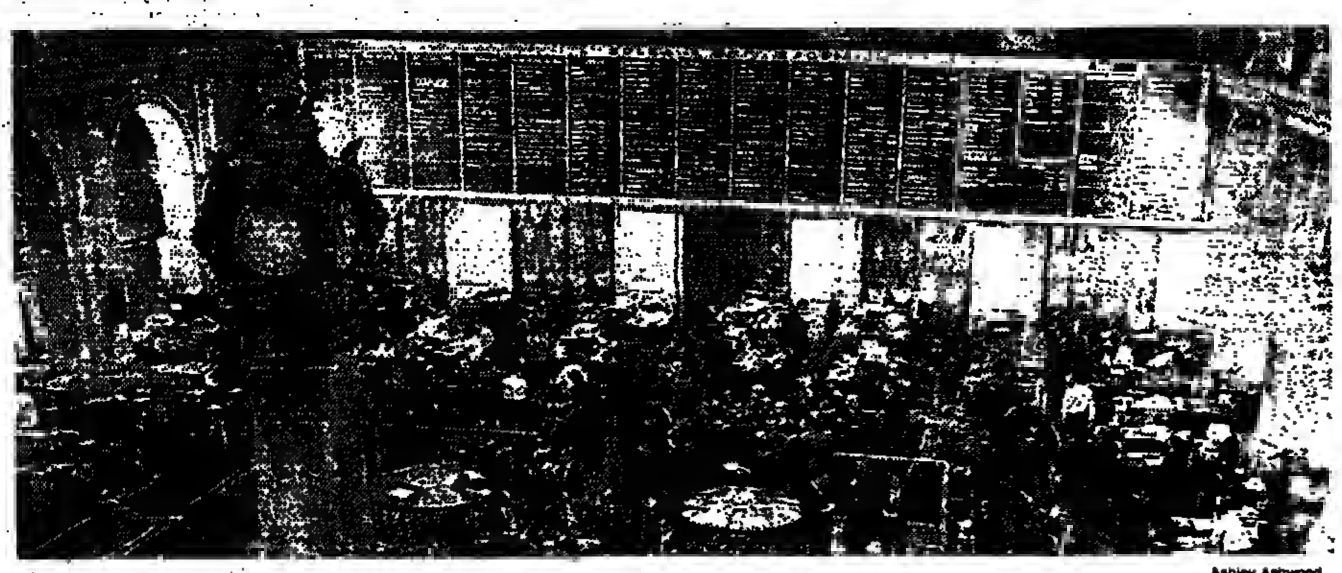
As a mutual insurer owned by its policyholders, Mapfre Mutualidad was limited in the extent that it could raise capital from the markets. However, by demutualising the company, Mr Larramendi might have rendered it vulnerable to takeover, especially at a time when European interest in the Spanish market was increasing. So instead, Mapfre opted to create a new listed company, Corporacion Mapfre, in which the parent, Mapfre Mutualidad, retains a 52.4 per cent majority. Mapfre's agricultural risks and information-services subsidiaries are linked to the Mntual. Separate life insurance, reinsurance, life, property, credit and technology subsidiaries are linked to the Corporacion.

With profits growing rapidly, Mapfre has restricted dividend growth and reinvested earnings into the company. In addition, there have been a series of rights issues. Shareholders' funds of the Corporacion have increased from Pta1.1bn in 1979 to Pta50.3bn in 1989, market capitalisation rising from Pta1.1bn to Pta154.9bn over the same period.

Mapfre has been most active in Latin America, reflecting Mr Larramendi's desire to make it the dominant insurer in the Hispanic world. Against the international trend, Mapfre has been buying heavily, establishing a significant presence in Chile, Mexico and Puerto Rico. It also has subsidiaries in Portugal and Italy, and has recently expanded its activities in London, having bought MAP Securities, a securities house, possibly as a first step towards developing fund-management expertise.

More recently, again fulfilling one of Mr Larramendi's ambitions, Mapfre has established a bank, complementing its home and motor insurance, life insurance and mortgage and consumer loans services with a deposit-taking facility. This completes the range of financial services offered by the group at a time when Spain's banks are all examining the possibility of selling insurance products across their counters.

By the end of this year, Mapfre expects to have 50 branch offices established throughout Spain, and hopes eventually to have bank units attached to all of its 1,500 insurance offices. Unorthodox this may be, but unorthodoxy has served Mapfre well in the past.



Ashley Ashwood

The Madrid stock exchange, like the other three, is involved in plans to establish an efficient fixed-interest market

David Owen on electronic evolution at the stock exchanges

Regionals seek new roles

THE MAJESTIC 1,500 square-metre trading room of the Barcelona Stock Exchange is awash with dealers. Middle-aged men haggle good-hnmouredly as we thread our way through them to get a better view of the ornate chandelier. Dark stone arches provide an austere backdrop. A computer terminal sits incongruous and neglected near the middle of the room.

But appearances can he deceptive: these are not stock traders hut members of the local Tuesdays-only commodities market. In fact, Spain'a three regional stock exchanges (in Barcelona, Bilbao and Valencia) risk being made largely redundant by the espousal of electronic trading as part of a far-reaching market reform executed in July 1989.

More than 90 per cent of trades are now conducted on a screen-based computer-assisted trading aystem (Cats), although face-to-face dealing continues, chiefly for small capitalisation stocks. After Cats was brought in, Barcelona's sbare of the overall Spanisb market slid quickly from 17 to 10 per cent, although the decline bas since levelled out.

In Barcelona's case, according to Mr Walter Scherk, assistant managing director, tbe exchange could "tick over as at present" for some time since it still makes money. But generally speaking, the regionals are casting around for new strings to their respective bows.

All four exchanges, including Madrid, are involved in plans to establish an efficient fixed-interest market. "What we are going to do is provide an electronic aystem for the current demsterialised over-the-counter market," says Mr Pedro Vinolas, head of researcb at the Barcelona exchange.

Madrid's target is to lift to 50 per cent, from just 5 per cent at present, the proportion of its overall business that fixed-interest instruments comprise. It expects rapid growth of the country's underdeveloped institutional investment sector to propel it towards this goal.

As Mr Luis Carlos Croissier, chairman of the Comlsión Nacional del Mercado de Valores (CNMV), Spain's stock market commission, has said: "If there is a characteristic that sets our stock market apart from others in Europe, it is the minimal role played by collective funds and institutional investment."

The reform also led to the creation of 57 brokers, subject to strict capltal adeqnacy requirements, wbo are now jostling for business amid projections that many will not survive. Competition will intensify at the start of next year when fixed commissions – currently pegged at 25 basis points – are abolished. In fact, informal discounting is already taking place. "The average charge is about 15 hasls points," says Mr José Luis Feito of tbe broker Asesores Bursátiles (AB). "That is a figure we have heard from clients pushing us to reduce our brokerage fees."

The brokers fall into three broad categories: those wbo have teamed np with domestic or foreign bankers; a few diversified independents; and those who are trying to turn themselves into no-frills discount houses.

In the early days, it was widely assumed that the bank-backed institutions would prevail. But now opinions differ as to which firms will be most hard-pressed to survive.

Mr Feito still feels that the comportment of the banks is his biggest worry. "If a customer works with the securities house affiliate of a commercial bank, be gets a much better price for pure banking services than if be goes through us," he says.

By contrast, Mr Francisco González, chairman of FG, another independent broker, feels thst the lsckadaisical approach of many bank-affiliated brokers has enabled firms like FG to thrive. "We succeeded because the banks used stockbroking firms as an extension of their operations without putting any commitment into it," be says.

The comments of Banco Zaragozano president Mr José Ramón Rendueles help to add substance to this view. Mr Rendueles was "not very much in favour" of the bank's decision to invest in a broker. "I don't think it will be a very profitable business In future," he says.

Cats is universally rated as a success for making the market more efficient and transparent nearly two years on, but a variety of other problems remain.

■ The Madrid stock market index is still well down on pre-Kuwait invasion levels, despite something of a rally in March.

■ New listings are rather infrequent. AB's Mr Feito hlames this fairly and squarely on Spain's "severe" treatment of capital gains. (The top rate of capital gains tax for individuals is 56 per cent, treated es an integral part of income tax.) "There are many large and profitable Spanish companies that are not quoted solely because the tax treatment of capital gains prevents it," he says.

■ The market retains a clubby image. Most observers accept that this will take time to change, despite the considerable powers now vested in the CNMV, and despite the credibility this body gained through the penalties doled out in the *caso Repsol* for irregularities during the $1.1bn part-privatisation of the hig energy conglomerate.

"We have strong regulations hut the prohlem is making them work," says Mr Sebastián Ubiría, a CNMV adviser. "In this country it is normal to go from no regulation to very strong regulation hut for the regulation not to work."

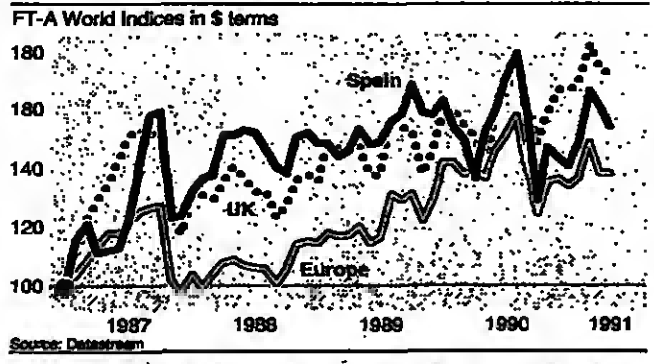
Mr Ubiría says that the two higgest problems the CNMV faces are insider trading and *autocartera* or the buying and selling by companies of their own Treasury stock. "It is the first time that these have been as administrative offences," he says. "That is a very important cultural change."

■ The settlement system needs to be improved. Currently trades are officially settled on just one day a week (Friday) in the week following the date on which they actually took place. A new system, under which settlement wonld took place daily and a maximum of five days after the event, is in preparation.

Estimates of the likely implementation date for the new system range from January to Jnne 1992. In the meantime, many banks have started to operate an informal "rapport" system, whereby trades are effectively settled six or seven days after the event.

How the market has moved

FT-A World Indices in $ terms



Source: Datastream

Derivatives-trading looks different, too

In place of the pit

NO PROFANE lapel badges. No gaudy traders' jackets – indeed, no traders. The trading floor of Barcelooa's Mercado de Futuros Financieros (Meff), the Spanish financial futures exchange, is every Chicago local's worst nightmare made reality.

Instead, a squat mainframe computer sits in the middle of a glass room, accompanied by two smaller back-ups and an emergency generator. The only people in the vicinity are a dozen computer-programmers and their support staff, along wlth three telephone operators.

The combined electronic and telephone-based trading system operated in Madrid hy the Mercado de Opciones Financlero Espanol (Mofex), tbe Spanish options exchange, is similarly uncongested.

In fact, as Mr José Luis Oller – Meff's chief executive officer – points out, "the Spanish regulations do not allow individuals to be members of the market". Consequently, locals – or individuals trading on their own account – do not exist. "We follow the marketmaking system with a number of banks acting as marketmakers on screen," Mr Oller says.

He cites three reasons why Meff, whose first contract was launched just over a year ago in March 1990, espoused an electronic approach to futures trading.

■ It is cheaper than pit dealing.

■ It permits the exchange to be based in Barcelona, while many members are "happily working" some 600km away in Madrid.

■ Spanisb stock markets had recently moved to an electronic system.

Mofex, in turn, cites low costs as part of the rationale for adopting its combined trading system: members do not need to invest in computer terminals. The exchange began trading four months ahead of Meff, in November 1989, and was formerly known as OM Ibérica.

The name-change – implemented In February – followed a reorganisation of tbe exchange's ownership in the wake of the sale by the Swedisb options group OM of its 30.6 per cent interest. This was beld through its OM International subsidiary.

"We saw it as rather natural for us to sell our shares to make it possible to have a hroader ownership," says Mr Michael Konjstad, of OM. "We still have a royalty contract with Mofex, because they use our technology."

Though tiny by international standards, both institutlons have established themselves relatively quickly and fairly successfully.

First-quarter trading at Mofex totalled 102,645 lots, the vast majority in its three-year notional bond option contract. The corresponding figure at Meff was 143,930 lots, with 63 per cent of trades in its three-year bond future.

Both exchanges also offer shorter-term contracts based on the 90-day Mihor reference rate. Meff last month launched a five-year bond futures contract following the Spanish Treasury's recent success in issuing five-year deht. It is not yet clear whether Mofex will follow suit with a matching optlon. "We think it is a bit premature," says Mr Ignacio Solloa, the Madrid exchange's financial director.

Under the present regulatory framework, Spanish derivatives markets are restricted to trading deht-related instruments. "We were born out of the regulations for the official bond market, as an extension of it, and not properly speaking as a futures market," Mr Oller explains.

New rules specifically for the derivatives markets are in the pipeline, however. "We have finished a draft, and the aim is to have it out hy the summer," says Mr Sebastián Uhiría, a advlser at the Comisión Nacional del Mercado de Valores (CNMV), the stock market commlssion that is expected to be responsihle for regulating the Industry under the new regime.

Once these rules are in place, new derivative contracts in currencles and stock indexes are forecast to follow in short order. Mr Oller expects a stock index future, as well as both peseta-dollar and peseta-Deutsche Mark contracts, to be up and running by the year-end. "We are making an effort to get an index that is independently calculated," he says.

Oversbadowing such plans and mucb else at present, thougb, are negotiations that may result in the merger of the two exchanges, or at least significant changes in the manner in which individual derivatives contracts are distributed between Barcelona and Madrid.

The case for one exchange rests on efficiency: simply stated, Spain is not a big enough market to support separate futures and options trading arenas.

Though logical, however, this path is fraught with intractable political difficulties. Concentrating derivatives in Madrid would offend Barcelona, which is extremely sensitive to the capital's increasing predominance as a financial centre. Shifting entirely to Barcelona, on the other hand, is hardly likely to appeal as a course of action to the Madrid Stock Exchange, which is Mofex's largest shareholder with a 20.2 per cent stake.

In a hid to carry the day, the Generalitat – the autonomous government of Catalonia, where Barcelona is located – recently offered to put up Pta1bn to belp cover the cost of a merger, provided the resultant entity was Barcelona-based.

Should political sensibilities indeed contrive to prevent an out-and-out merger, the impending proliferation of contracts may lend itself to a situation where related families of futures and options are based at the same exchange.

Says the CNMV's Mr Ubiria: "Many people are now suggesting that the rational division of work is not between futures and options but between products."

Meff's Mr Oller at one point hints at such a solution. "It is possihle tbat we would give Mofex some measure of responsibility for stock index futures and options," he says.

He insists, however, that "a condition for a merger is that the exchange be based bere". "Our idea Is to save some market activity in Barcelona hy having derivatives here," he adds.

Mofex's Mr Solloa says simply that the final declsion depends on the sbarebolders of the two exchanges. "It is possible that both could survive separately," be says.

David Owen

David Owen profiles Repsol, the integrated oil company

Gas-distribution merger is likely by end of the year

MR OSCAR FANJUL is a dead ringer for some of those elegant 17th-century noblemen who populate Diego Velázquez's paintings.

But the bearded and personable Mr Fanjul is less likely to be seen adorning the Prado museum than the boardroom of Repsol, the integrated oil company which is Spain's largest private-sector industrial group in revenue terms.

Repsol chairman since 1986, Mr Fanjul likes to refer to himself as "the veteran among European oil company chairmen".

Mr Fanjul believes the company "is big enough to have critical mass". There is no likelihood of a foreign partner

Large by Spanish standards it certainly is, but Repsol, which reported net profits of Pta67.7bn ($707m) on revenues of Pta1,571bn ($16.4bn) in 1990, is only a second-tier energy company from a global perspective. By its own reckoning, the group is the fifth-largest oil company in Europe. In refining, one of its strongest legs, with domestic capacity of 720,000 barrels per day, or some 60 per cent of the Spanish total, it stands "about tenth" worldwide.

Mr Fanjul is nonetheless confident that the company – which also boasts substantial petrochemicals operations and beneficially owns over two-thirds of Campsa, Spain's principal transporter and retailer of petroleum products – "is big enough to have critical mass". There is no question of a foreign partner being brought on board, except for isolated ventures, and Mr Fanjul professes to be "not interested" in large acquisitions, because "the prices being paid are very high".

In 1989, the group did acquire a relatively small presence in the UK, by buying Carless Refining & Marketing and Carless Petroleum, which specialise in high value-added petroleum-based products such as solvents, white oils and drilling muds.

Repsol began operations only in October 1987, following a reorganisation of the oil and gas businesses then owned by the government's Instituto Nacional de Hidrocarburos (INH).

It was part-privatised in 1989 in a $1.1bn operation that was much the largest ever undertaken on the Spanish capital markets. INH still holds about two-thirds of the shares, a further 10 per cent of which are now in various North American hands.

The privatisation was the second-biggest that year after the mammoth sale of the UK water companies. The British flotation was "one of the reasons why we couldn't sell a larger proportion of the shares," Mr Fanjul says.

According to Mr Fanjul, the discipline instilled by moving into the private sector and the reporting requirements arising from the group's New York Stock Exchange listing have "helped us a lot".

"One of our main characteristics is that we operate as a private company," he says. "We have introduced professional managers; we don't have politicians running the company. One of the things about a state company is that the management changes too often."

When looking for a weak link, analysts tend to point to the group's upstream activities; the company last year produced only about a quarter of its refining needs.

Mr Fanjul acknowledges the weakness, admitting: "You would always be happy having 200 per cent instead of 25 per cent of your requirements." But, he says, the group is "very happy not to have acquired more reserves at the prices being paid".

Nor is the chairman intent on making good the shortfall at breakneck speed. "We are spending around $100m a year on exploration, which is not an exceptional figure for a company of our size," he says. "We are not bullish about the evolution of crude-oil prices; for that reason we have not made important acquisitions of reserves."

Much more of a strategic priority is natural gas, which has historically been under-used in Spain, as recently as 1983 accounting for only 2.7 per cent of primary energy consumption.

The group hopes to finalise details for a merger of its gas-distribution assets with those of La Caixa, the big domestic savings bank, to form one of Europe's largest gas utilities by the end of the year.

"We have been trying to create a gas company of medium size at international level, and we will do this by merging 13 of the 15 Spanish distribution companies," Mr Fanjul explains. "It is an area of growth for us."

The agreement in principle with La Caixa has cast considerable doubt over the future of the 10 per cent stake held by British Gas in Catalana de Gas, the country's biggest gas company. Repsol owns 17 per cent of Catalana, while La Caixa has 34 per cent.

Bank lending limits saw a rise in commercial paper, but now . . .

Old credit routes are back

LAST YEAR'S explosive growth of the Spanish commercial paper market underlined the truth of the adage that if you attempt to regulate a market – in this case, the credit market – somebody will craftily unregulate it.

An estimated Pta7,000bn ($70bn) of the *pagarés de empresa* were issued last year by hundreds of Spanish companies. As little as six years ago, this market scarcely existed.

It was the Bank of Spain that lit the blue touchpaper in 1989, by deciding to impose rigid lending limits on domestic banks in a bid to cool the economy. This came a few months after a measure which effectively put foreign borrowing off-limits by requiring companies to deposit 30 per cent of any non-Spanish loans with the Bank.

The combined effect left corporations who were desperate for capital to fund expansion and to make strategic investments ahead of the single European market in an invidious position – which, of course, is exactly what the Bank intended.

Many of them resolved the problem by the simple expedient of getting up and finding their own lenders. In the process, they often discovered that this did not cost much more than borrowing from a bank anyway: there were plenty of prospective lenders whose appetites had been whetted by the returns that the fledgling commercial paper market had already been yielding.

"When you can get 15 per cent, it is hard to put your money in a bank account," says Mr Alvaro Pernas, of Banco Santander de Negocios. "Between 1987 and 1990, those who remained in the market have been outperforming anyone who invested in three- or five-year bonds," he adds.

Borrowing short-term also suited the paper's issuers, who were understandably reluctant to lock into high interest rates for a prolonged period.

The party which the rapid growth of the market emphatically did not suit was the central bank, whose attempted credit squeeze was comprehensively finessed.

Borrowing short-term also suited the paper's issuers, who were understandably reluctant to lock into high interest rates

With the credit restrictions now scrapped and the 30 per cent rule recently lifted, it looks as though the market for *pagarés* may have shot its bolt, since companies once again have a full menu of borrowing options available to them.

To compound matters, the standard 25 per cent withholding tax has been abolished on government paper. The first ripples of concern over corporate creditworthiness have also emerged, following the default of one substantial borrower in the market earlier this year.

Not that anybody expects the market to atrophy overnight. An active secondary market in the securities has sprung up, and an electronic clearing system is in place. But the rate of growth is widely predicted to slow markedly. Observers feel that small companies will return to their banks while larger ones may seek to borrow abroad where they should be able to raise funds more cheaply.

"I think there will be a lot of foreign borrowing in preparation," says Mr Francisco González, chairman of FG, the independent broker. "I would not be at all surprised if six months from now you saw a big bulge in international loans."

Such a development might well underline the truth of the adage that every cloud has a silver lining. A necessary concomitant to non-peseta denominated borrowings would presumably be a home-grown currency swaps market. "Yes, we are working on that," says Mr González enigmatically.

David Owen

Government debt: **David Owen** explains why Spain is so attractive to foreigners

New tax rules will speed repayment

MR ALVARO PERNAS has not been getting enough sleep lately. The dark rings under his eyes attest to the surging level of foreign interest in Spanish government debt.

"In the first quarter of this year, the bank did 70 per cent of the foreign volume it did in the whole of 1990 – which was a good year," says the Banco Santander de Negocios capital markets executive. "It is satisfying for us, although I am pretty tired."

All told, the value of Spanish bonds in the hands of foreigners soared by 260 per cent in the first 12 weeks of the year, to approximately $12bn. Non-resident holdings of Treasury bills rose more sedately to about $1.5bn.

The principal reasons for Spain's current attractiveness are two-fold.

First, peseta debt combines high real yields with a hard (i.e., ERM-constituent) currency. Second, the government this year effectively abolished, with effect from January 1, a 25 per cent withholding tax on interest paid to most non-resident bondholders.

"The lifting of the withholding tax stemmed from the gradual realisation that with the tax you have little chance of real foreign interest in your markets," explains Mr Manuel Conthe, the youthful chief of the Spanish Treasury.

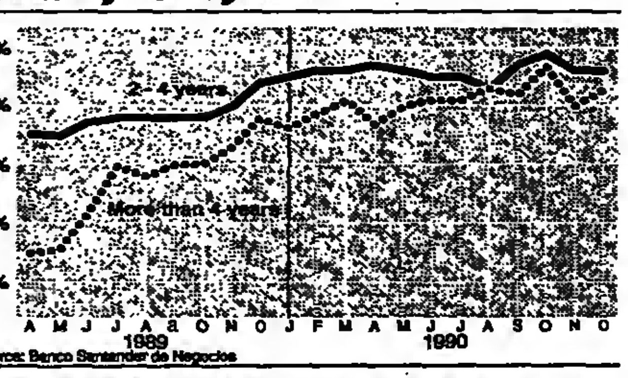
In practice, non-resident bondholders have been kept waiting for their tax reimbursement by a cumbersome claims procedure which can take months to work its course. But new rules to speed up repayment, making use of the Bank of Spain's book entry system for Treasury instruments, are under formulation, and are expected to be in place in June. Reimbursement should then be possible within one or two days.

"The idea is that the foreign investor will not even notice that the tax has been withheld," Mr Conthe says. "What is important for us is to have some means of telling non-residents from Spanish residents who still have to pay the tax."

According to the Treasury chief, the new rules will also contain a clause, "following the UK tax code", to prevent "coupon washing" by Spanish residents to escape the tax net.

The Treasury has good reason to keep foreign investors sweet even though it has already achieved its funding targets for 1991: Spain's budget deficit is forecast to fall to 0.5 per cent of gross national product this year.

Treasury bond yields



Source: Banco Santander de Negocios

Their explosion of interest, after all, has helped its efforts to lengthen the abnormally short maturity profile of its debt, build a credible market in Spanish medium-term paper and relieve its heavy short-term payments burden. No less than 54 per cent of Spain's overall stock of debt comes due this year, according to Treasury officials.

In contrast to prior years, when 12-month Treasury bills took the strain, three- and five-year bonds have this year emerged as the Spanish government's basic tool of financing.

This has lifted the average length to maturity of government debt to around 2.5 years from a low-point of 1.3, according to official estimates. At the end of 1990, nearly 58 per cent of outstanding debt was in the form of instruments whose term was 18 months or less.

The Treasury has even started to hold monthly auctions of 10-year bonds, although Mr Conthe says that "significant amounts" of these instruments will not be placed. "Issuing 10-year paper is something they have been trying to do for two years," according to Mr Pernas.

Another peculiarly Spanish instrument, which at the end of 1990 accounted for fully one-fifth of outstanding government debt, is meanwhile being phased out. The 18-month *Pagaré del Tesoro* is a form of promissory note that pays below market rates of interest to the financial institutions obliged to hold them and the individuals attracted by the freedom from fiscal reporting requirements they offer.

Ironically, their discontinuance has initially worked counter to the government's debt maturity objectives, since the tendency was to replace them with shorter-term Treasury bills.

From next month, however, *Pagaré*-holders will be able to exchange their investment for a new six-year instrument which will yield just 2 per cent and be known as Special Public Debt. The carrot will be the new instrument's guaranteed tax-exempt status.

"It was a compromise by the government which is not ready to grant a tax amnesty but wants to provide an honourable way out to current holders of *Pagarés del Tesoro*," Mr Conthe says. "According to the draft law, the buyers may deduct their investment in these instruments from past income discovered by the tax authorities."

According to some estimates, black market money in circulation in Spain amounts to as much as $40bn.

Other tactics recently employed by the Treasury to lengthen Spain's debt maturity profile have included borrowing in other currencies – ecus, dollars and (Euro) French francs – whose markets are more at home with long-term debt, and cranking down interest rates on its one-year Treasury bills. This has led to a decoupling of bill rates from the very short-term official intervention rate set by the Bank of Spain. The Bank is committed to keeping interest rates high to stifle inflation.

Borrowing in non-peseta markets also helps the Treasury to avoid the pitfall – of which Mr Conthe is all too well aware – of locking in excessively high yields for unacceptably long periods. "It is a typical dilemma," he says. "How do you shift the debt profile longer term when you want to bring long-term yields down?"

"We had to strike a balance between our desire to lengthen the maturity profile and the fact that it would have been unwise from a monetary and budgetary viewpoint to lock in high yields."

Profile: Manuel Conthe

The costliness of gradualness

MR MANUEL CONTHE, the Spanish Treasury chief, has a sense of humour to match his striking blue eyes.

In the middle of a discussion about attempts to create EC economic and monetary union and Britain's position as "odd one out" in not accepting the goal of a single currency, he hastens to consult the collected works of Walter Bagehot, whom he regards as one of Mrs Thatcher's favourite economists.

In an essay entitled *A Universal Money*, written in 1868, Bagehot argued strongly in favour of one global currency, chiefly on the grounds that it would facilitate trade. "The new system must be one which will do no violence to national jealousies," he wrote.

In Mr Conthe's view, Britain's notion of a gradual market evolution towards a common currency, which could become the single currency if governments decided so later, is like "letting people make up their minds what side of the road to drive on." "It is very costly for the market to regulate itself," he says.

Nonetheless, the 37-year-old civil servant, who is starting to be viewed as a potential central bank governor, was deeply involved in the drafting of Spain's Emu proposals, tabled in January, which supported Britain's "hard Ecu" plan up to a point. But rather than create a new 13th currency (the hard Ecu), Spain suggested "hardening" the existing basket by making sure it did not lose value against those currencies not devaluing whenever there was a European Monetary System (EMS) realignment.

Manuel Conthe

"We tried to make the British proposal even more market-friendly," he says. "We saw a number of circumstances that made us feel it made sense to support the British proposal as a transitional stage on the way to Stage Three [full monetary union with a single currency]."

On the practical logistics of moving towards Stage Three, Mr Conthe feels that there are a few "politically linked" elements which make it "very hard to make progress on one without progress on another".

"My personal impression is that, if there were a clear commitment to convergence in terms of inflation and budget deficits, the Germans would be much more forthcoming in devising Stage Two [the transition phase]," he says. "I think they are taking the view of not being ready to move on the monetary front until they have tangible evidence that everyone is taking the idea of convergence on inflation and budget deficits seriously."

David Owen

There's life still in the Spanish bids-and-deals market, reports **David Owen**

Integration may spur mergers

STATISTICS ARE hard to come by, but the stampede to buy into Spanish companies that started when Spain joined the European Community in 1986 has calmed down.

Observers state that the Gulf war "really knocked the stuffing out of" the bids and deals market, although the number of offers doing the rounds looking for financing has again picked up since the war ended.

This followed a moderate year in 1990, when spirits were lifted by the announcement of two very large transactions in the final quarter. These were British Steel's prospective purchase of 45 per cent of Aristrain, the private steelmaker, as part of a joint venture; and Guinness'a agreed bid for Cruz dal Campo, Spain's largest brewer. The Guinness deal was worth a hefty £533m; it is thought that the British Steel transaction would weigh in at some £114m.

Various subsidiary factors are cited for the decline in activity:

■ The elevated price aspirations of many sellers – "People want the same multiples as in 1988. That isn't realistic any more," says Mr Juan Perea of Cofir, an investment company.

■ Most of the big deals have already been done – "There are very faw companies in hot sectors that don't have foreign participation," according to another observer.

■ The dollar's weaknass last year – this had "a significant impact" on the low number of US-related transactions, according to Mr Colin Blessley, a corporate finance partner with Coopers & Lybrand, in Madrid.

All of this is not to say that there is not still life in the Spanish market. Participants reckon that with full EC integration beckoning, more companies will decide to merge to achieve critical mass.

Some will choose domestic partners, but there are compelling reasons for othars to court foreign companies. According to Price Waterhouse partner Mr Augusto San Segundo, those in technologically advanced sectors will tend to seek ties with non-Spaniards. Elsewhere, he says, "size is what matters, so another domestic company will do just as well".

In seeking to merge, companies would be following the example of some of Spain's best-known banks and utilities. Late last month, Hidrola and Iberduero, the two large private electricity utilities, announced thet they were in "advanced and serious" negotiations to create a new company. Meanwhile, Repsol and La Caixa are attempting to merge their gas distribution assets.

A veritable spate of banking mergers is gathering momentum in pursuit of critical mass. Until earlier this month, Banco Bilbao Vizcaya (BBV) – tbe product of a marriage between Banco Bilbao and Banco de Vizcaya – was Spain's largest bank. It has since been outstripped first by the agglomeration of state-owned institutions into Corporación Bancaria Espanola and then by the Banco Central-Banco Hispano Americano tie-up.

Some also expect Spain's strict new accounting regulations (*see this page*) to spur more of the country's family businesses to sell out as they realise tbe full enormity of what is proposed. Such businesses still form the backbone of Spanish industry, employing more than 85 per cent of the country's workforce.

From a buyer's perspective, tbe accounting reform will sooner or later produce an exponential increase in the amount of financial information concerning potential targets that will be available.

"Historically, the most you might have got was maybe the share capital, the identity of the shareholders and directors, and a very broad level of information on sales volume," says Coopers and Lybrand's Mr Blessley. "The changes in disclosure and filing requirements will change that."

Mr Blessley harbours doubts, however, about just how rapidly the Mercantile Register – where accounts will be lodged – will begin to provide an efficient service. "The Registry will be literally bombarded with company accounts," he says. "One has to be sceptical about how this is going to work, at least in the initial period."

Serious foreign buyers will still be advised to conduct due diligence, however, with Spain's widespread tax-evasion problemproviding a strong motivation for doing so.

It is not just a target's previous fiscal practices that might be an issue, but the manner in which the seller proposes to minimise capital gains liability. Since the closing of a widely used loophole on Ash Wednesday 1989, schemes devised to achieve this end have ranged, in the words of one market watcher, "from the highly illegal to the imaginative and secure".

The inspiration for this creativity is a top rate of capital gains tax for individuals pitched at 56 per cent and treated as an integral part of income tax.

Says Mr Blessley: "Any Spaniard thinking about doing a deal over the next couple of years will have put in place a structure to make sure some of the amount avoids the Spanish tax oetwork."

But relief may be at hand. Reforms are in the pipeline which could reduce substantially tbe capital gains levied on assets held for long periods. Under current proposals, according to Mr Blessley, "if you have owned a business for 20 years or more, capital gains tax will be zero."

Ashley Ashwood

Even the steel industry is attracting foreign attention, though AHV'e integrated plant in Bilbao is likely to stay in domestic hands

Buying a business in Spain

It's a minefield so do get help

A NEW hotel opened recently in Madrid, which blows a hole in even the best-lined pocket. But for businessmen in town trying to secure an acquisition, the pricey premises may be worth every penny.

The botel only provides suites, and these come complete with individual boardrooms and every extra, from personal computers to multilingual secretaries. The foreign corporate buyer will need every inch of the luxurious space to pace about in, for his negotiations are likely to be torturous; and his advisers will need every business prop available as they sit down to deal with the paperwork.

Acquiring a Spanish company can involve crossing a fiscal and legal minefield, and no time, effort or money should be spared in order to come out safely the other side. Big acquisitions take place almost every month, which means that it *can* be done, and the prizes an instant market share in an expanding economy that can be dramatically upgraded by importing management skills are often lucrative.

In the past year, Crédit Lyonnais has acquired two banking natworks in Spain; Guinness has bought the biggest domestic brewery; British Steel has purchased the most profitable steel producer in private hands; and Elf Acquitaine has gained a 30 per cent foothold in the main private-sector refinery.

But the acquisition trail has also had more than its share of unexpected mishaps.

Germany's Benckiser bought a Barcelona-based, family-owned detergent company two years ago, and the following day was swept into a legal wrangle with Procter & Gamble of the US, which said it had already paid a deposit for the property to members (dissident ones, as it turned out) of the same family.

The acquisition by Bupa, the UK bealth insurer, of Sanitas, Spain's largest private health gronp a year earlier, is still keeping lawyers busy as both sides argue about the real net worth of the company.

The muddle that Benckiser found itself in is fairly typical, given the family share structure of most Spanish private businesses. "More than a corporate financier, yon have to be a marriage counsellor," says a London merchant banker with a long experience of dealing with feuding relatives during Spanish acquisitions.

Bupa'a problems made the news only because of the huge disparity of the sums involved. There are countless tales around of foreigners heing ripped off, paying 15 times earnings for companies whose real profits were a third of what had been stated.

The first "do" that a potential buyer of a Spanish company has to keep very much in mind is to call upon the skills of a regiment of accountants to go through the books. Mr Fernando Pombo, senior partner of Gomez-Acebo y Pombo, one of Madrid's leading law firms, stresses that, over and above everything else, the potential buyer must insist on proper, in-depth due diligence.

This goes a lot further than a tough accounting audit. There should also be a thorough legal audit, which goes through property deeds, employment agreements, supplier contracts and the rest with a fine toothcomb. In the botel cocktail bars, where confused business people swap "I was robbed" stories into the small houra, dark stories are told of real estate that was never in the company'a name, of idle executives with platinum parachutes, and of suppliers that have the morality of a highwayman and a contract that runs for 20 years.

Due diligence does not by any means end there. Mr Pombo warns that an environmental andit may be a more-than-wise move, and that product liability is an issue that should be thoughtfully examined. Anthorities may have turned a blind eye to a Spanisb company'a habitual dumping of waste, and to its filthy clouds of poisonous fumes. Once under foreign ownership, however, officialdom might well insist that the same company adhere to rigorous standards that were once systematically flouted.

The second broad "do" has to do with attitudes, and is consequently less measurable. Foreign buyers might be better equipped to face hispanic business deals if they took a crash course in coping with different cultural standards.

Some way down along the discussion line, the foreigner will coma across an approach to negotiations ("a souk-like approach," say the veterans at the game) that will draw on his reserves of patience. It is not just procrastination. The buyer will bave to grapple witb a business culture where profit for profit's sake might not necessarily wash.

This leads directly to the "don'ts". What the potential foreign buyer in Spain should never do is rely on his own systems and on his experiences in otber environments tbat may, superficially, resemble that of Spain. "Don't rely on verbal agreements," Mr Pombo warns. "Insist on agreements in writing and on proper contracts."

The other main "don't" may be something that the potential buyer is likely unwittingly to ignore, and by doing so could jeopardise the deal. No buyer should ever underestimate the tax implications of the purchase agreement for the vendors. The buyer might like to imagine the vendors laughing all the way to the bank, but in fact they are more likely to be worrying about fiscal authorities seeking around 53 per cent of their capital gains.

Mr Pomho came face to face with this problem when he helped Guinness to acquire the Seville-based Cruzcampo brewery, which has more than a quarter of Spain's fast-growing beer market. The first problem was to identify the 170 members of the closely-knit, landowning aristocracy of Andalucia who owned the company. The second, and more complex one, entailed guiding them through the tax liabilities they faced as a result of the UK group's £533m acquisition.

The foreign buyer will come across less sophistication and less experience than he may have bargained for. But the buyer will also come across a very positive attitude towards selling on the part of the vendors. With the sort of money that is changing hands, this is not altogether surprising.

Tom Burns

The new accounting regulations offer . . .

A credible exit from the neolithic age

A REVOLUTION is taking place in the bitherto arcane world of Spanisb financial reportiog. For many Iberian finance directors, the effect will be akin to marching out under arc-lamps after a very long spell in a very dark dungeon.

"The whole process of going from virtually nil disclosure requirement to what is a fairly complete set of accounts is causing a tremendous amount of heart-searching among companies," says the Madrid-based partner of one of the Big Six international accounting firms.

Spain's 1986 entry into the European Community committed it to implementing the EC's company law directives. The Gonzalez government has opted to attempt to do this with the minimum of delay. The upshot is that a country tbat, until very recently, was positively neolithic in financial reporting terms will be dragged into the modern age with disconcerting rapidity.

A register of auditors, which have been popping up like mushrooms at the prospect of all the new business, has been created

The reforms have updated the Audit law, the Companies Act and the *Plan General de Contabilidad*, the general chart of accounts. The main points to bear in mind are as follows:

■ An official register of authorised auditors – which have been popping up like mushrooms at the prospect of all the new business – has been created. Only registered firms can sign statutory audit reports.

■ Commencing with the year ending December 31, 1989, Spanish companies must lodge their accounts with the Mercantile Registry (an institutioo similar to the UK's Companies House), where they are available for public inspection. Previously, there had been no filing requirement whatsoever in Spain.

■ Commencing with the year beginning January 1, 1990, tbere is a statutory audit for medium-sized and large companies.

■ Commencing with tbe year beginning January 1, 1991, the general chart of accounts must be applied.

According to Madrid-based accountancy firm partners, the new-style and newly available accounts should be reasonably accessible to non-Spanish readers, although there are likely to be some problems of interpretatioo. These could arise sometimes from unfamiliar presentation and/or conventions, and sometimes from transitional measures. Potential stumbling blocks include the following.

Profit and loss account: Spanish companies will classify expenses by their nature, rather than by the reason for which they were incurred, as is UK practice. Balance-sheets will be presented in the horizontal east-west format, rather than vertically.

Notes: in the words of one observer, the notes to the accounts of Spanish companies will be "almost as voluminous as those to British companies". There is currently no Spanish information requirement on directors' shareholdings or political donations, however. In addition, directors' remuneration need only be disclosed in total, and there is no obligation to disclose the valne of land and buildings wbere it differs significantly from the value in financial statements.

Leasing: The capital cost will be included as an intangible, not a fixed asset, because, it is argued, tbe lessee does not become the registered owner of the item until payments have been completed.

Pension liabilities: There will be a transition phase for the translation of accrued pension liabilities. According to Mr Ian Angus, a Coopers & Lybrand partner: "It will be 15 years before we are up to full accrual basis for all pension liabilities." He adds: "The transition provisions are very obscure; nobody really knows exactly bow the accounts for 1990 should be prepared."

Exchange losses: A transition pbase will also apply to exchange losses arising from foreign debt.

One of the government's main motivations for pushing the rules tbrough so quickly was fiscal: tax evasion under the old regime was endemic. Accounting executives therefore quail at the possible fall-out from an element of the reforms that makes them responsible for reporting evident fiscal irregularities. Says one: "This is not the optimum legal framework within which to generate the warm feeling of mutual trust between auditor and audited that exists in the best of all possible worlds."

Already, however, it seems clear that this particular stipulation is open to a variety of interpretations. "We will continue to do what we did before," says Mr Augusto San Segundo, a partner with Price Waterhouse. "What we will not do is tell the fiscal authorities of any irregularity, however little. We are not civil servants."

One of the government's reasons for pushing the rules through so quickly was fiscal: tax evasion under the old regime was endemic

In sum, it still remains unclear quite how smoothly these far-reaching reforms will click into action. But if they succeed in imbuing Spanish published financial information with greater credibility, they will be performing an immense service on various counts:

■ Credit rating agencies sbould at last be able to get properly down to business.

■ Potential buyers and trade partners of Spanish companies should be taking less of a plunge in the dark.

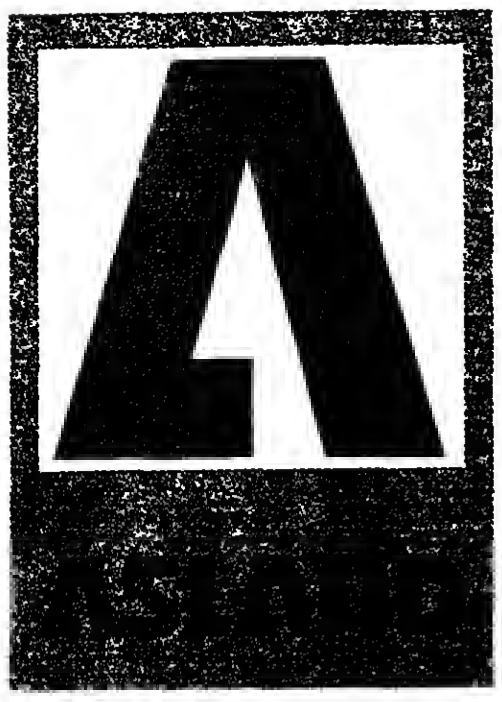
■ The reforms may even belp the stock exchange to become a more useful vehicle for raising new finance.

David Owen

FG Inversiones Bursátiles, S.A., a leading independent Spanish stockbroker, arranged an investment seminar in Madrid in April 1991 for an invited gathering of international institutional investors. As part of the programme there were presentations from the following Spanish companies:

FG

FG



1

ASLAND

One of the ten most traded shares on the Spanish Stock Exchange.
Cement and ready-mix concrete are its main products, manufactured all over Spain, where Asland is the market leader, and Portugal.
With international investments in Europe and America, the Spanish Group ASLAND is integrated into Lafarge Coppée, the world's leading group in the field of construction materials.
With total assets of U.S. $1,218 million, the ASLAND Group in 1990 made a net profit of U.S. $117 million, an increase of 17% over the previous year. Sales were U.S. $600 million.
ASLAND is capitalized at U.S. $1,300 millioo.

2

BANCO HISPANO AMERICANO

Banco Hispano Americano is the parent bank of the largest diversified financial group in Spain. Established in 1900, it is the only Spanish financial institution with a full-service English bank in London.
Capital: Ptas. 45,697 million.
Reserves: Ptas. 145,597 million.
1990 net profit: Ptas. 30,958 million.
Number of branches: 1,462.
Number of employees: 14,399.

3

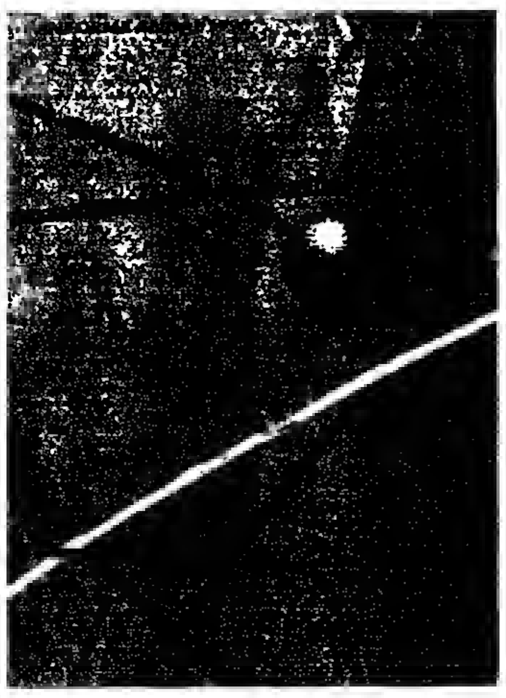
CUBIERTAS Y MZOV S.A.

1991 sees the 75th birthday of CUBIERTAS Y MZOV S.A., a company that has consolidated its position as the second-largest construction firm in Spain. The company has entered both national and international markets, in public as well as private works. Its philosophy has been based on service to the client and specialisation in large-scale projects.
Its advanced level of technology permits it to work in all areas of construction, both in Civil Engineering – bridges, tunnels, railways, maritime projects, hydraulics and roads – and in Building – industrial, urban and residential.
CUBIERTAS is also involved, through its subsidiaries, in special cement, landscape gardening, car parks, property, engineering and projects, urban cleaning and waste disposal etc.

4

GRUPO ENDESA

Endesa a State-owned holding company, is the leading producer of electricity in Spain. The Group is made up of seven companies, headed by ENDESA, Empresa Nacional de Electricidad S.A.
Installed capacity represents 25% of the national total, and includes conventional thermal-generating, nuclear and hydroelectric plants.
The electricity generated represents 35% of the national total.



5

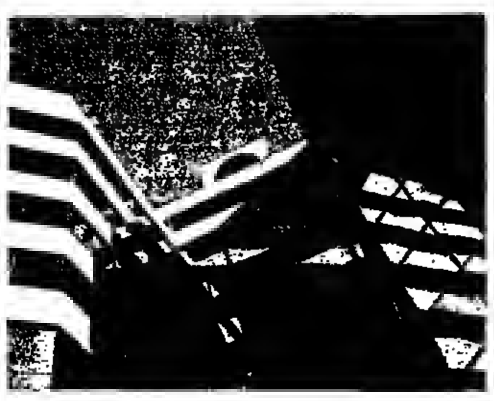
CORPORACION MAPFRE

CORPORACION MAPFRE is the central holding company of one of Spain's largest insurance and financial groups. Its subsidiaries are grouped into six *Operating Units: Life Insurance, General Insurance, Banking and Financial* Services, Direct International Insurance, Reinsurance and Real Estate Development.
It is a subsidiary of MAPFRE MUTUALIDAD DE SEGUROS. Overall MAPFRE has over 1,600 offices in Spain, and operational investments in 15 countries, with estimated consolidated revenues in 1991 of Ptas. 300 BN.

6

PORTLAND VALDERRIVAS, S.A.

Founded in 1923, Portland Valderrivas started its industrial activity with an annual production capacity of 50,000 tonnes of Portland cement. By 1972 the *company had already achieved an annual production* of 2 m. tonnes. *In 1991* its new works at El Alto are alone capable of producing 2.8 m. tonnes.
In 1985 Valderrivas acquired 70% (later increased to 80%) of the Picasso Tower project in Madrid. Promotion of the building started in December 1988 and ended in March 1990 with full occupancy of the building – which has 43 floors, over 78,000 sq. m. of office and shop space and 726 parking places.



Vallehermoso

7

VALLEHERMOSO S.A.

Founded in 1951, Vallehermoso is a mixed property and development company quoted on the Spanish Stock Exchange. Since the company's creation the average annual growth in its assets has been 25% compound.
In 1989 Vallehermoso took over Corporación Inmobiliaria Hispamer S.A. and Inmobanif S.A., becoming thereby the largest company in its sector.
The consolidated profit in 1990 reached Ptas. 6,505 million, a 44% increase on 1989.

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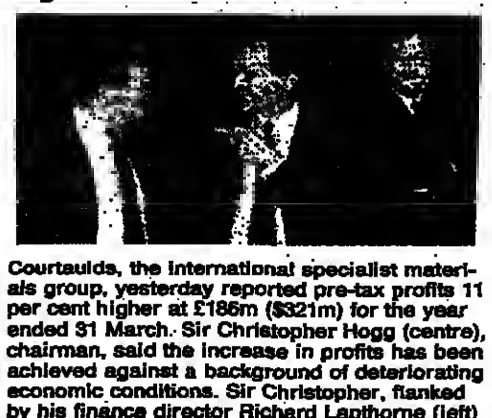
Thursday May 23 1991

INSIDE

Courtaulds advances by 11% to £186m



Courtaulds, the international specialist materials group, yesterday reported pre-tax profits 11 per cent higher at £186m ($321m) for the year ended 31 March. Sir Christopher Hogg (centre), chairman, said the increase in profits has been achieved against a background of deteriorating economic conditions. Sir Christopher, flanked by his finance director Richard Lapthorne (left) and managing director Sipko Huismans, asserted: "We have e firm buainess for the future." Page 23

More grief at Australian banks

The Australian ANZ banking group has become the worst performer of the country's three listed banks following the release of interim figures yesterday. Pre-tax profits fell 50 per cent, the group revealed. The bank also saw its charges for bad debts more than double in the six months. Mark Westfield reports. Page 18

Peru sews up its cotton

Peru la struggling to ehake up its cotton industry – once the country'e principal export – by liberalising trade measures and lifting export restrictions. However, production of Tanguis, an internetionally coveted variety which until now has been virtually unaveilable outside Peru, has been hit by e combination drought, scarcity of credit and increased terrorist attacks. Sally Bowen reports. Page 28

Sabena confirms talks with BA and Air France

Britiah Airways, and Sabena are in advanced talks over a new partnership which would see BA invest in e large direct stake in the financially troubled Belgian eirline. Sabena confirmed yesterday that the airline was in advanced partnership negotiations with both BA and Air France, the French national flag carrier, but that talks with BA were the most advanced. Sir Colin Marshall (above), BA chief executive, also confirmed this week that the two companies were continuing discussions over a new partnarship following the collapse last January of the tripartite venture between Sabena, BA and KLM Royal Dutch Airlines. Page 23

End result for Japanese groups

The Japanese reporting season continues with year-end results from leading drugmaker Yamanouchi Pharmaceutical, Komatsu, the construction equipment manufacturer, Hiroshima Bank, synthetic fihremaker Toray, and Oji Paper. All hut Oji enjoyed e rise in profits on the previous year. Page 18

Market Statistics

Companies in this issue

LONDON (Pence)

Rises				Compass	419	–	14
Ambassador	34	+	3	Great Portland	213	–	12
Amberley	35	+	3	Greycoat	301	–	13
Blacks Leis	87	+	4	Hanson	210½	–	5
Cityvision	39	+	3	RHM	287	–	24
Macarthy	192	+	24	Scapa	150	–	8
Sanderson M.E.	430	+	18	Shoprite	247	–	18
Smith (WH) A	362	+	14	TSB Chanl Isl	130	–	5
Wood (A)	124	+	9	Trencherwood	54	–	33
Falls				Westerly	9	–	3
Barry Wehmiller	211	–	13				
Cable & Wire	509	–	13				

Renault and Volvo post poor results

By Kevin Done, Motor Industry Correspondent

VOLVO, the Swedish eutomotive gronp, yesterday reported continuing operating losses for the first three months of the year, while Renault of France, its strategic partner, annonnced severely depressed profits.

The grand alliance announced a year ago between the two companies, one of the most ambitious and complex restructnring operations under way in the European auto industry, is taking shape at a time when the financial fortunes of both companies are being forced to e low ebb.

Yesterday'e announcement of quarterly results was the first attempt by the Franco-Swedish partners to co-ordinate their financial reporting. The depressing figures highlight the scale of the task facing Mr Pehr Gyllenhammar, Volvo chairman, and Mr Raymond Levy, Renault chairman and chief executive, the architects of the alliance.

Both companies have accepted that the fruits of the partnership will come only in the medium to long term, but in the short term both are having to take stern measures in order to bolster the creaking financial performance of their car and truck operations.

The substantial minority cross shareholdings now cemented between Volvo and Renault mean that the two groups are having a mntually negative impact on each other's financial results.

In the western European car market (including eastern Germany), where sales remained virtually unchanged in the first four months of the year, Renault suffered e 4.5 per cent fall in sales volumes with its market share declining to 9.9 per cent from 10.4 per cent a year ago.

In particular Renanlt has been exposed to the sharp fall in new car sales in France itself in the first four months, where new car registrations fell by an estimated 16.1 per cent. This has been compensated in part, however, by a strong performance in Germany (including eastern Germany), the only European market still showing dynamic growth in new car demand.

On the commercial vehicles front Renault is still suffering continuing heavy losses from its Mack truck operations in the US.

Volvo'a car operations were still operating at a loss in the first quarter, as it battled with the impact of the plunge in sales in its three biggest markets, the US, the UK and Sweden, as well as in neighbouring Finland.

Volvo is being forced to take drastic actions to improve the indnstrial efficiency of its operations. It said yesterday it was aiming to have reduced its annual cost levels by SKr3bn ($487m) by the end of 1991, and by SKr5bn by the end of 1992 when the programme was fully implemented.

The immediate need for such fire-fighting operations by both companies underline the need to attain the considerable long-term cost savings they claim to have identified in their grand alliance. Yesterday's financial results add new urgency to the quest.

Details, Page 16

Renault's Raymond Levy: depressing figures for one of the architects of the alliance with Sweden's Volvo's

KLM falls into red with loss of Fl630m

By Ronald van de Krol in Amsterdam

KLM Royal Dutch Airlines yesterday unveiled a provisional net loss of Fl 630m ($325m) for the year ended March 31, a sharp reversal from the previous year's net profit of Fl 340m.

The loss was slightly below the Dutch airline's earlier forecast of a deficit of Fl 650m, and KLM's shares rose by 5 per cent on the Amsterdam stock exchange to close np Fl 1.30 at Fl 27.10.

Almost half of the 1990/91 loss – or Fl 300m – was due to a provision takeo to help restructnre the carrier, rednce its annual operation costs and prune its workforce.

Exclnding these and other extraordinary items, KLM's net results on ordinary hnsiness activities showed a loss of Fl 353m compared with a profit of Fl 156m in 1989/90, in line with the company's February predictions.

The airline, which is 38.2 per cent owned hy the Dutch government, will give details of its dividend on June 13, when it is dne to pnblish definitive figures for last year. KLM paid an unchanged dividend of Fl 1.80 per share on 1989/90 results.

Like several other Enropean airlines, KLM has heen struggling to contain costs egainst a backdrop of slower growth in world aviation. Becanse of its higher wage costs, KLM is particnlarly vulnerahle to competition from Asian carriers.

KLM's problems were apparent even before the onthreak of the Gulf war and the resulting downturn in international air travel. However, the war forced Mr Pieter Bonw, KLM's president since January, to accelerate and intensify the company's cost-cutting drive, which was first launched in October 1990.

The airline has been hurt hy a weak dollar because many cf its costs are incurred in guilders, one of Europe's strongest currencies. KLM's results have also been affected by losses at Northwest Airlines of the US, in which it owns a minority stake.

By cutting more than 1,000 staff jobs and devolving non-core activities – representing a further 2,000 jobs – to external contractors, KLM hopes to achieve a 7 per cent improvement in prodnctivity in each of the next three years. Other cost-cutting measures include delays in the delivery of new aircraft.

The airline indicated that it could improve its operating margins to 5 per cent of turnover by the end of 1993/94, following the implementation of these changes.

UK rent slump hits top property group

By Vanessa Houlder, Property Correspondent, in London

LAND SECURITIES, the UK's biggest property company, yesterday announced a 22.6 per cent fall in its net assets per share to 671p in the year to March 31, a decline that exceeded the City of London's worst forecasts.

However, the company's strong income flow led to a rise in pre-tax profits of 22.9 per cent to £215.2m ($372m).

Land Securities is the undisputed bellwether of the UK property industry, accounting for a quarter of the valne of the quoted sector. So the greater-than-expected drop in asset value represented more bad news for a sector already reeling from blows dealt over the past year.

Investors also found little comfort in Mr Peter Hunt's statement: "It not yet clear how long the current problems will continue to affect the industry or when growth will resume."

"Excessive bank lending on property has to be reduced and the oversupply of accommodation, particularly in the City of London, absorbed; this will take time," he warned.

This verdict is shared by most analysts, who forecast another sharp fall in values this year.

Recession and oversupply are biting the property market in two ways. So far, the decline in value has been largely due to a rise in property yields, as investors demanded higher returns to compensate for the oversupply and poor rental prospects of property. Land Securities yields have jumped by 2.4 per cent to 8.4 per cent over the year.

Yields may now be stabilising – as they find support from the level of gilt yields – but falling rents are taking their toll on asset values.

The oversupply of space and recession knocked an estimated 6.6 per cent off office rents last year, and will cut a further 15 per cent in the year to January 1992, according to the chartered surveyor, Richard Ellis. Overall, rents are forecast to fall 8 per cent over the period.

Mr Colin Barber of Richard Ellis says capital values for the market as a whole have already fallen by 5 per cent since January (due, in part, to a steep rise in yields during March and April). He says they have a further 8 per cent to fall in the next eight months.

These Richard Ellis forecasts created a stir when they were released to analysts a few weeks ago, prompting a cut in forecasts of Land Securities' assets to between 675p and 725p.

In the end, the results were worse than even the worst predictions, resulting in a fall in Land Securities' shares yesterday of 9p to 521p. Several other shares with large city portfolios also lost ground.

These declines are unsettling for a sector that is already at a 22-year low relative to the stock market. However, it is not clear that the valuations of other companies with March year-ends will fall as far as Land Securities. Analysts draw comfort from Land Securities' oddly robnst performance a year ago, when its assets actually rose in value.

If Land Securities' worse-than-expected performance was partly due to last year's over-sanguine valuation, then other results in the coming weeks may be better than feared.

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Electrolux profits fall amid lower US and UK demand

By Robert Taylor in Stockholm

ELECTROLUX, the world'e largest white goods manufacturer, auffered a 19 per cent decline in its profits (after financial items) for the first quarter of the year, with the result falling to SKr414m ($67.6m) compared with SKr511m for the same period of 1990.

Sales dropped 6 per cent to SKr19.2bn from SKr21.8bn for the first three months of last year. The company's operating income declined 12 per cent after depreciation to SKr798m from SKr908m.

Electrolux also announced a fall in earnings per share to SKr3.60 compared with SKr3.90 for the first quarter of 1990.

The company attributed the decline in its profits performance on falling demand in the all-important US and UK core business consumer markets for household appliances and outdoor products. Electrolux has also experienced signs of a downturn in its southern European consumer goods markets, particularly in France.

It added that the effects of its restructuring programme begun in the second half of last year were "gradually becoming evident" and contributed to the growth of income as well as market share achieved in Europe.

Electrolux said that, while profits continned to decline in its North American white goods operation compared with the first quarter of 1990, the latest figures were an improvement over last year'e fourth-quarter performance.

Sales of household appliances fell to almost SKr10.7bn in the first quarter from around SKr11.3bn for the same period of 1990.

The company's sales in commercial appliances rose to more than SKr2bn from SKr1.9bn but dropped to SKr2.5bn from SKr2.8bn in outdoor products.

The company's components product line and aluminium manufacture in its industrial products division suffered a profit decline in the fourth quarter with a fall in sales to SKr3.5bn from SKr4.2bn.

Commercial appliances maintained operating margins and profitability as e result of a good performance in the food-service equipment sector.

Low income was reported for industrial laundry equipment with a drop in sales to the US. As a result, there was a sharp fall to SKr404m from almost SKr1.1bn.

ICI move pressures UK government

By Our Industrial Staff in London

SENIOR UK ministers are concerned that a bid by Hanson for Imperial Chemical Industries would burt the government in the run-up to the general election.

They fear a bid for ICI by the acquisitive British industrial conglomerate would become one of the most highly charged UK industrial policy issues of recent years and put the government in an almost impossible position.

Meanwhile, it has emerged that the chairmen of Hanson and ICI, Lord Hanson and Sir Denys Henderson, met for two hours on Tuesday in the first meeting between the camps since Hanson bought its 2.8 per cent stake in the chemicals group last week.

A terse ICI statement said that no further meetings ware planned. Lord White, bead of Hanson's US businesses, and Mr Colin Short, ICI's finance director, are also believed to have been present.

Ministers are publicly committed to not intervening as the situation develops, arguing that any decision on a bid should be left to ICI's shareholders and the European Commission competition authorities. It is widely expected that the EC would take precedence over UK authorities in vetting a bid.

Yet ministers believe they would face a political campaign of mounting ferocity to intervene to prevent one of the country's largest industrial groups from being broken up. They fear the government would look impotent in the face of such a campaign, which would highlight Hanson's long-standing financial support for the Conservative Party.

One cabinet minister said: "Just with Hanson taking 2.8 per cent, this has been bad news for the government, because it raises the spectre in people's minds of asset stripping and capitalism run riot."

Although ministers doubt whether the UK could claim authority over the bid, Department of Trade and Industry officials are examining whether there would any grounds on which the Office of Fair Trading and the Monopolies and Mergers Commission could review it.

It is unlikely the MMC could vet the bid on national interest grounds, as these are narrowly proscribed under the EC's rules to strategic industries sucb as defence, or on the grounds thet a takeover would create a monopoly in the UK market.

According to ICI, Hanson reiterated on Tuesday that its purchase of shares had been for investment purposes "but thet all its options remained open".

Poor sales hold Volvo to SKr340m

By Robert Taylor in Stockholm

VOLVO, the Swedish vehicle group and largest company in Scandinavia, yesterday reported a sharp decline in profit after financial items for the first quarter of the year. The profit slid to SKr340m ($55.4m) from SKr1.05bn during the same period of 1990.

However, the result is an improvement on the SKr134m group loss after financial items in the fourth quarter last year.

Volvo made a SKr397m operating loss in the first three months of the year, compared with a SKr625m operating profit for the same period of 1990. The decline reflects a downturn in sales. The group said yesterday it was an "unsatisfactory" result.

Return on capital over the most recent 12-month period was 3.8 per cent, compared with 12.1 per cent for the preceding 12 months. Income per share was SKr4.4 in the first quarter, up on the SKr4.2 per share last time.

Continuing low sales volumes, depressed margins, and the high cost of under-utilised production capacity were blamed for the poor results.

There was a 10 per cent decline in group sales in the first quarter, to SKr17.46bn from SKr21.68bn for the same period of 1990, with a 17 per cent drop in car sales to SKr8.77bn from SKr10.59bn. The number of Volvo cars delivered to customers totalled 83,500, compared with 104,100 for the same period of 1990. Demand for Volvo cars fell in all the group's main markets, except Germany.

The truck division also suffered a net drop in sales to SKr4.9bn from SKr5.68bn, despite strong demand in the Middle East and Germany. Bus sales fell – by 5 per cent to SKr85m from SKr89m – and there was a decline in sales for marine and industrial engines to SKr650m from SKr703m.

Volvo estimates that cost savings at a rate equivalent to around SKr900m a year were achieved in the first quarter. However, the group admitted that savings so far in its rationalisation programme had been "quite limited".

Volvo hopes to have reduced its costs by just over SKr3bn before the end of this year, with a saving of a further SKr2bn in 1992 through increased efficiencies.

The group's net debt rose sharply in the first quarter, from SKr10.7bn on December 31 1990 to SKr16.8bn on March 31 this year. This was due to a SKr6.45 payment to its new strategic ally, Renault, partly offset by a SKr1.9bn sale of assets. At the end of the first quarter, Volvo withdrew SKr1.5bn from restricted deposits in the central bank.

Liquid funds in the group fell by SKr1.78bn to SKr15.8bn over the first three months of the year, and the book value of shares and participations rose by SKr10.1bn to SKr31.7bn, mainly as a result of the acquisition of shareholdings in Renault. Mr Christer Zetterverg, Volvo's president and chief executive officer, said the company aimed to reduce debt by selling unspecified assets.

Holdings in associated companies contributed SKr94m to earnings in the first quarter, compared with SKr250m last time. Volvo's share of operating income in Procordia, the food and pharmaceutical group, was SKr194m, while Renault accounted for SKr8m.

More Swedish results, Page 27

Renault profit margins squeezed further

By William Dawkins in Paris

RENAULT, the French state-owned car group, saw profit margins dwindle further in the first quarter of 1991, hit by the continued drop in demand and losses from Volvo, the Swedish car group in which it has a minority stake.

Renault made a FFr298m ($51.29m) pre-tax profit in the first three months of 1991 on sales of FFr40bn, down 8 per cent on the turnover in the same period last year. Its taxable profit margin was 0.74 per cent for the first quarter, well down on the 1.05 per cent achieved for the whole of last year. This suggests the 87 per cent net profits decline for the whole of last year steepened in the first three months of 1991.

The squeeze on Renault's margins reflects the continuing decline in the French car market in the first quarter, when registrations overall dropped 20.6 per compared with the first three months of 1990, according to the CCFA French car industry association.

However, there was a slight recovery in car sales last month, according to the latest industry survey by Insee, the state statistics body.

Renault gave no comparative quarterly profits figures since this is the first time it has published three-monthly results. The company reformed its reporting policy in line with the disclosure practices of Volvo, the Swedish car maker, with which it completed a share exchange in January.

Volvo contributed a FFr31m loss to the pre-tax result of Renault, representing the deficit attributable to the French carmaker's 25 per cent stake in Volvo Car, its 45 per cent in Volvo Truck, and its 5.5 per cent in AB Volvo, the Swedish partner's parent group.

Renault reported a FFr547m operating profit for the first quarter, representing 1.37 per cent of turnover, down from a 3.85 per cent operating margin achieved during the whole of 1990.

Car sales accounted for nearly 81 per cent of turnover, slightly up on last year, while the truck division represented 16 per cent of turnover, down from 17.7 per cent last year.

Swiss lift the veil on directors' salaries

By William Dullforce in Zurich

ANOTHER CRACK has appeared in the crumbling dyke of Swiss corporate secrecy. The annual report of Walter Meier Holding (WMH), to be published today, will disclose the remuneration paid to its board of directors and senior management.

No other listed Swiss company has revealed these costs. The few which have started to comply with tha European Community's directives on corporate financial statements have omitted payments to the board.

Nestlé, the biggest Swiss company, has refused to give information on directors' salaries. However, like other Swiss companies, it lists a global allocation from profits to non-executive members of the board.

In an earlier revolt this month against Swiss corporate practices, foreign and Swiss pension funds joined forces to persuade Holzstoff, a diversifying Swiss paper manufacturer, to withdraw proposals that would have restricted the number of shares and voting rights one investor could hold.

Now, WMH, a medium-sized industrial conglomerate with a 1990 turnover of SFr692m ($480.5m), is disclosing payment of SFr1.8m to its six directors and SFr900,000 to the four members of its executive board.

Interest-bearing loans to members of the board totalled SFr800,000 at the end of 1990, while loans to senior executives amounted to SFr1m.

Mr Werner Staub, chief financial officer, said WMH had decided that corporate transparency was basic to winning the confidence of investors.

WMH, still controlled by the founding Meier family, runs 40 subsidiary companies.

Since it went public in 1985, net earnings per share have climbed from SFr134 to SFr249 last year. The dividend has risen by SFr5 per share each year.

For 1990, a difficult year, WMH is posting a 10 per cent increase to SFr27.8m in consolidated net earnings.

Land Securities earnings improve but assets slide

By Vanessa Houlder, Property Correspondent

LAND SECURITIES, the UK's biggest property company, yesterday announced a 22.6 per cent fall in its net assets per share to 671p over the year to March 31, a decline that exceeded the most pessimistic forecasts.

The effects of recession and oversupply pushed the underlying value of Land Securities' portfolio down by 19.2 per cent to £4.7bn ($8.1bn), according to Knight Frank & Rntley, the group's valuers.

However, the company's strong income flow led to a rise in pre-tax profits of 22.9 per cent to £215.2m from £175.1m. The dividend was increased by 16.2 per cent, from 17p to 19.75p with a final payment of 14.25p. Earnings per share rose by 25 per cent to 30.85p from 24.64p.

In a cautious statement, Mr Peter Hunt, chairman and managing director said the year ahead would be primarily one of consolidation.

He said the portfolio still had reversionary potential (to increase its rental income after rent reviews) although to a much reduced extent than last year.

"At current values some additional incoma should therefore flow from reviews and renewals over the next two years or so," he said.

The company said it would be prepared to see a fall in its dividend cover to allow further increases in the dividend per share, although it would not necessary continue at the current rate.

The worst-hit part of the portfolio was City of London offices, the value of which fell by 27.5 per cent. Properties in the West End and Victoria fell by 16.6 per cent, shops and offices elsewhere in the UK fell by 15.4 per cent, out of town retail fell by 20.6 per cent and industrial and warehouse property by 11.1 per cent.

Land Securities said that 79 per cent of the income from its development programme was secured by lettings. Excluding its development programme, voids represented less than 2 per cent of its annual rent roll. "However both voids and irrecoverable outgoings will increase in the current financial year," warned Mr Hunt.

Analysts forecast a further fall in assets this year as a result of the decline in rents. The decline in assets led to a rise in gearing to 32.6 per cent.

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Devenish to sell brewing side

By Philip Rawstorne in London

DEVENISH, the west of England brewer, yesterday provoked a fresh burst of hostility in its battle against a takeover bid from Boddington, tha hotels and pubs operator, by announcing that it is to quit brewing.

Mr Michael Cannon, Devenish chairman, said the company's beer brands and free trade business would be sold to Whitbread for £9.75m ($16.8m.)

Under a proposed seven-year agreement, Whitbread would supply Devenish's 370 pubs with a large range of beers – including the Boddingtons brand and Devenish's own Newquay Steam.

Separate talks were being held about the possible sale of Devenish's brewery in Redruth, Cornwall, which lost £1.7m last year. If the brewery is not sold, it will be closed. The £5.5m costs of closure would be more than offset by a £5.9m gain from the sale of its wholesaling business last December.

The Whitbread deal brought an angry response from Boddington, which launched a £127m bid for Devenish last month.

"The Devanish board is determined to mortgage future profitability to prop up its last line of defence – its overstated asset value," said Mr Denis Cassidy, Boddington chairman.

Devenish had finally acknowledged the total failure of its brewing strategy on which millions of pounds had been wasted, said Mr Cassidy.

Mr Cassidy described the £5.9m gain from the sale of Devenish's wholesaling operations as "illusory". He said it and would be written off if Boddington acquired the company.

Boddington intends to study the terms of the supply agreement – still subject to approval by Devenish shareholders – before deciding whether to proceed with its bid.

It has warned that if it considered any such deal detrimental to future profits, it would withdraw.

The Devenish deal is made more interesting by the fact that Whitbread Investment Company has a 15.3 per cent stake in the company as well as just under 22 per cent of Boddington.

The proceeds from the sale of its beer brands would enable the company to expand and develop its pub estate, Devenish said.

Ifil net increases to L114.4bn

IFIL, one of the main holding companies of Italy's Agnelli family, raised net group profits by 38.5 per cent to L114.4bn ($90m) last year from L82.6bn in 1989, writes Haig Simonian in Milan.

Net earnings at parent company level increased by almost 16 per cent to L95.2bn from L82.1bn in 1989.

The dividend remains unchanged at L120 and L140 for ordinary and savings shares respectively.

Among the group's investments are stakes in BSN, the French Foods concern and Galbani, the Italian foods group.

WH Smith to focus on core units

By John Thornhill in London

WH SMITH, the UK retailing group, yesterday announced a refocusing of its businesses involving the proposed sale of its television and most of its travel interests, and the expansion of its core high street activities in newspaper, record, video and book retailing.

The annonncement was accompanied by a £147.8m ($255.7m) rights issue and a forecast that pre-tax profits in the year to June 1 would advance by 3 per cent to £88.5m. The company said its yearly dividend would rise by 8.7 per cent.

The proceeds of the rights issue – the first in WH Smith's near 200-year history – will help fund the company's £300m investment programme over the next three years. This represents a marked acceleration in capital expenditure, which was previously running at £65m a year.

The company intends to expand its Our Price record retailing business in the UK and US, and is opening up to 100 Our Price video shops in the UK over the next three years. It also plans to expand Waterstone's, its book chain, in the UK, and will open two stores in the US this autumn.

It is estimated that WH Smith will receive about £65m for the sale of WHSTV, its television programme supplier, set against its net asset value of £59.3m as of June 1990.

The proposed buyer is a consortium of ESPN (owned by Capital Cities/ABC and Hearst), Canal+ and Compagnie Géneralé des Eaux. WH Smith said it was close to selling a large part of its travel operations to Carlson Travel Network of the US.

Details, Page 23; Lex, Page 14

KSB cautious despite 33% advance

KSB, one of the world's leading pump manufacturers, raised group pre-tax profits by 33 per cent to DM83m ($50m) last year. However, it does not expect to repeat this performance under the more difficult conditions of 1991, Mr Kilian von der Tann, chief executive, said, writes Andrew Fisher.

The company, which also makes valves and environmental equipment, benefitted last year from the strong economies in Germany and neighbouring countries and the fact that cost rises were moderate. In the first quarter, turnover rose by around 10 per cent. Last year, turnover rose at the same rate to DM1.7bn, with around DM2bn expected for 1991. Mr von der Tann said KSB was feeling the effects of economic weakness, especially in France and other parts of western Europe.

Mitel returns to red with C$107m loss for year

By Bernard Simon in Toronto

MITEL, the troubled Canadian telephone equipment supplier which is 51 per cent owned by British Telecom, has suffered its sixth loss in the past eight years with a C$107m (US$93.8m) setback in fiscal 1991.

Although part of the loss was due to the weak North American market, the bulk resulted from a sweeping restructuring which appears designed to make Mitel more attractive to a prospective buyer. BT put its shares up for sale more than a year ago, but has so far failed to dispose of them.

An official of the Ottawa-based company said yesterday that while "we'd rather have the sale finalised, our main concern is getting the company back to profitability".

The loss for the year to March 29 1991, which equals C$1.41 a share, includes fourth-quarter charges of C$88.5m to cover restructuring costs and related asset writedowns. Mitel posted net income of C$12.1m, or 9 cents a share, in fiscal 1990.

The reorganisation, the third since 1985, includes a 15 per cent cut in the workforce, the closure of the US sales office, and a greater focus on the core business of small and medium-sized office switching systems. Mitel has also been hit this year by a spate of senior resignations, including its president and chief financial officer.

The operating loss for fiscal 1991 totalled C$31.8m, compared with income of C$1.8m the previous year. Mitel said the market for switching equipment "continues to be highly competitive", especially in North America. Revennes for the year rose slightly to C$431.3m, from $427.4m in fiscal 1990.

On a positive note, sales of digital PBXs, especially in Germany and the UK, helped offset declines in sales of analogue products.

The company said sales in Europe grew by 6 per cent last year, with especially strong growth in Germany. It has set up a network of 150 dealers in eastern Germany.

Mitel cautioned that its cash balances, which stood at C$61.4m at the end of March, were likely to drop in the first two quarters of fiscal 1992. But, with long-term debt of only C$5.8m and unused credit lines, the company was confident it could meet all cash requirements, inclnding restructuring costs.

BT will suffer a large loss when it eventually sells its Mitel stake. The British company paid C$320m, or C$8 a share, in 1985 for its controlling interest. The shares were trading yesterday at just above $1 on the Toronto Stock Exchange.

Laidlaw shares at four-year low

By Bernard Simon in Toronto

INVESTOR confidence in Laidlaw, the Canadian group which is the largest shareholder in security and car anction company ADT, has eroded markedly in recent days, with its share price dropping to its lowest level in four years.

The price of the Ontario-based waste services and school bus operator's class B shares dipped by another C$⅝cents yesterday morning to C$11.50 (US$10) on the Toronto Stock Exchange, bringing the drop in the past two days to C$1.75, or about 15 per cent.

Analysts have ascribed the recent dip in the share price partly to the likely costs of cleaning up a hazardous wasfe site near Montreal, which the company acquired as part of an acquisition in 1989.

Reports earlier this week also suggested that the London Stock Exchange was investigating certain transactions by ADT and its chairman, Mr Michael Ashcroft. Laidlaw has a 29 per cent stake in ADT.

In an effort to boost its image, ADT earlier this week invited a gronp of North American analysts to a car auction and one of its security centres in Chicago.

According to one of the participants, ADT managers left with the impression that relations with Laidlaw have improved since last months's widely-publicised dispute over allegations by the Canadian company concerning ADT's true financial condition.

However, the two companies have apparently not yet agreed on the choice of independent directors who will be named to the ADT board in terms of the settlement hammered out last month.

ADT intends to hold its annual meeting in Bermuda on June 3.

Laidlaw, which is 47 per cent owned by Canadian Pacific, was until recently regarded as one of North America's most blue-chip investments. Its share price reached a peak of C$28.38 last year.

CP's share price also weakened slightly yesterday.

Tha waste management business in general has turned out to be less immune from recession than was earlier thought, and Laidlaw has had particular problems with its US solid waste operations.

Laidlaw's income from continuing operations sagged to US$17.8m in the three months to February 28 from US$60.9m a year earlier.

After taking into account its share of losses suffered by ADT, net income was a meagre US$2.7m.

Asea sees profits fall 3% to SKr740m

By John Burton in Stockholm

ASEA, the Swedish joint partner in Asea Brown Boveri (ABB), yesterday reported that profits after financial items fell 3 per cent to SKr740m ($119.3m) for the first quarter of 1991.

Asea is due to be split into two listed companies on July 18. One will continue to trade under the Asea name and consist of Asea's 50 per cent holding in ABB as well as its shares in the shipping company Brostroms.

The rest of Asea's Swedish industrial operations will be transferred to a new listed company, Incentive, adopting the name of the engineering conglomerate that Asea bought last year. The new Asea had profits of SKr648m, a 3 per cent increase.

Asea's profits from ABB rose 3 per cent to SKr637m. Brostroms had earnings of SKr9m, np from SKr8m, on sales of SKr126m, a decline of 7 per cent.

Earnings for the units that will comprise the Incentive gronp fell 31 per cent to SKr92m.

The SEV power company reported a 33 per cent rise in profits to SKr101m, while sales increased by 15 per cent to SKr466m. The former Incentive group reported a loss of SKr87m on unchanged sales of SKr3bn.

L. A. Gear considers sale of substantial minority stake

By Karen Zagor in New York

L. A. GEAR, the beleaguered US footwear and apparel maker, yesterday said it was discussing the sale of a substantial minority stake in the form of a convertible security to an unnamed investment group.

The company, which is struggling more than most of its competitors in the retailing slump, is also said to be actively soliciting potential investors.

It has retained Merrill Lynch as its investment banker to explore various financial alternatives.

L A Gear, once the darling of Wall Street, has suffered a sharp reversal of fortune in the past year. At mid-session yesterday, shares in the company traded at $12, down $⅛, on heavy volume. A year ago, L. A. Gear's stock changed hands at more than $50.

Analysts said the company was in great need of an equity infusion. L. A. Gear, which in 1989 said it planned to be "No 1 in '91" has been posting net losses, when Nike and Reebok, the two biggest sports shoe makers, are recording steady improvements in earnings.

Ms Heidi Steinberg, an analyst at Salomon Brothers, attributed L. A. Gear's problems to its dependence on fashion, its lack of diversification and it relative youth.

The company is also burdened by a glut of inventory, which has put pressure on gross margins as the company slashes prices to sell old merchandise. According to Ms Steinberg, it needs to become more focused.

The company enjoyed a meteoric rise in the mid-1980s, when its high-fashion sports shoes were *de rigeur* on the streets of Los Angeles and the Wall Street trading floors. In 1989, L. A. Gear posted earnings of $3.01 a share on sales of $617.1m.

The past year has been less kind to the company. In the fourth qnarter, to November 30, it turned in its first quarterly loss since it went public five years before.

In March, the company restructured its credit facility with its banks. The bank group, led by BankAmerica, cut the credit line from $360m to $300m. Letter-of-credit usage was to $70m from $125m. The agreement prohibits any losses for the quarter ended May 31 and thereafter.

Dyno Industrier to buy New Zealand unit

DYNO INDUSTRIER, the diversified Norwegian chemicals and explosives group, is to acquire the New Zealand glue and formaldehyde facilities of A. C. Hatrick for an undisclosed sum, writes Karen Fossli in Oslo.

The acquisition will bring Dyno's total worldwide gine production to 500,000 tonnes annually, in 11 countries. The plant will be called Dynochem N.Z. Ltd.

Avesta climbs to SKr85m

By John Burton

AVESTA, the Swedish stainless steel group, reported that profits after financial items rose to SKr85m ($13.7m) during the first four months of 1991 compared with SKr26m a year ago.

However, it warned that earnings for the year will be significantly lower than its 1990 result of SKr157m due to falling demand.

It also announced 800 job losses.

The improvement in the period was primarily due to smaller losses in the value of Avesta's stockpile.

It suffered a loss of SKr4m on its inventory this year, compared with a deficit of SKr150m during the same period last year.

Excluding stock valuation changes, profits fell 49 per cent to SKr89m.

Operating profits also tumbled by 40 per cent to SKr148m, while sales declined by 7 per cent to SKr2.76bn.

Watson resigns from board of NAB

By Mark Westfield in Sydney

SIR BRUCE Watson, the chairman of Australian resource group MIM Holdings, resigned from the board of the National Australia Bank yesterday because of a possible conflict of interests during talks on the future of the company's loss-making Newlands and Collinsville coal mines.

MIM has said it will close the mines unless it successfully renegotiates with its banks debts attached to the project of A$560m (US$437.5m).

NAB is one of the five lead banks in the syndicate which has financed the project, which cannot meet its interest payments. Sir Rupert Clarke, the bank's chairman, said Sir Bruce had resigned because of "circumstances which had recently arisen and which possibly lead to a conflict of duties as chairman of MIM Holdings and as a director of the bank".

Cray forecast on earnings

CRAY Research, the US supercomputer maker, expects earnings to be lower in the second quarter, flat in the third, but higher in the fourth quarter, Mr John Carlson, Cray executive vice-president and chief financial officer said, Reuters reports.

INTERNATIONAL COMPANIES AND FINANCE

Sony surprises with 16% increase in pre-tax profit

By Robert Thomson in Tokyo

SONY Corporation, the Japanese consumer electronics maker, yesterday reported a 16.3 per cent increase in consolidated pre-tax profit for its last fiscal year. The figures surprised stock market investors, who pushed down the Tokyo market index yesterday on rumours that the company's profits had weakened.

Pre-tax profit for the year to end-March was Y264.59bn, up *from Y227.43bn, while sales* rose 25.6 per cent to Y3,616.5bn as international demand remained strong for the company's audio and video products. Sales for the current year are expected to be Y4,000bn, with a pre-tax profit of Y320bn.

Consolidated returns include the software sales of what was formerly *CBS Records* and Columbia Pictures Entertainment, which was bought in November 1989. The company said music entertainment sales rose 4.1 per cent to Y473.98bn and filmed entertainment sales advanced by 178.4 per cent to Y252.5bn.

Sales in Japan rose 9.5 per cent to Y952.4bn, in the US by 22.9 per cent to Y1,053.9bn, in Europe by 42.2 per cent to Y1,017bn, and elsewhere by 35.7 per cent to Y593bn.

Sony officials said future returns have become "ever more difficult to forecast" because of the slowing of Japan's economic growth rate, "worsening economic and trade friction", and "intensifying price competition".

The parent company reported a 22.4 per cent increase in *sales* to Y1,880bn, with pre-tax profit up 22.8 per cent to Y114.5bn. Sales of video equipment rose 30 per cent, audio equipment 11.4 per cent, televisions 16.6 per cent and other products 30.5 per cent.

Sony said the "other products" classification included semiconductors, which were reported to have performed well, while the company's computer *display operations* were particularly successful.

Concerned that the current year *could* mark a turning point for the company's growth, Sony executives said the company would "improve its financial soundness", "upgrade efficiency in all areas", and further develop its overseas operations to build a "solid corporate structure capable of responding to any change in the operating environment".

Building boom boosts Komatsu

By Stefan Wagstyl in Tokyo

KOMATSU, the Japanese *construction equipment maker*, yesterday reported a 41.1 per cent increase in consolidated annual pre-tax profits to Y85bn, ($620m) due largely to the capital spending boom in Japan.

Group sales for the year to end-March rose 11.5 per cent to Y989bn. Domestic sales were up by 12.8 per cent at Y688bn and overseas by 8.6 per cent at Y301bn. The economic slowdown hit sales in the US and parts of Europe and even the previously-buoyant market in south-east Asia showed some *signs of weakening, said the* company.

Komatsu delivered a powerful vote of confidence in the *continued growth* of the Japanese economy, despite warnings of deceleration from some other companies. It maintained that the domestic market would remain stable due to continuing investment in plant *and equipment and the* government's commitment to increasing public works.

It added that recession in the US and parts of Europe ruled out unbridled confidence.

The group's net profits rose 14.6 per cent to Y31.2bn. By sector, the group's fast-growing industrial equipment division, which *makes* robots, recorded the biggest sales increase – 30.4 per cent to Y86.7bn. A 48.6 per cent rise in domestic sales was *partly offset* by a *decline* in overseas turnover. Construction equipment sales rose 9.4 per cent to Y660bn.

For the current year, Komatsu forecasts a rise in consolidated sales to Y1,050bn. But *group profits*, depressed by a downturn overseas, are expected to fall to Y75bn. Net income will rise to Y33.5bn, due to better results from non-consolidated affiliates.

The parent company, which accounts for most operations inside Japan, is forecast to increase sales and pre-tax profits. *Sales are predicted to rise* from Y674bn to Y690bn and profits from Y44.5bn to Y47bn.

Earnings at ANZ dive by 72% to A$105m

By Mark Westfield in Sydney

AUSTRALIA and New Zealand Banking Group (ANZ) suffered a 58 per cent drop in pre-tax profit to A$232.8m (US$181.7m) for the six months to March 31, making it the worst performer of Australia's three listed banks.

It reported a drop in after-tax earnings of 72 per cent to just A$104.8m, compared with a net profit of A$380m for the same period last year.

The bank more than doubled its charges for bad debts to A$534.7m over the March half last year, and loans not paying interest have nearly quadrupled in the six months to A$5.1bn, due mainly to the severe recession in the ANZ's home state of Victoria.

Its bad debt charge was slightly better, however, than the A$568.7m taken in the previous six-month period to *September 30*.

Last week, Australia's other major listed banks, National Australia and Westpac, reported 18 per cent and 38 per cent net profit falls respectively for the six months to March 31.

Mr Will Bailey, ANZ group chief executive, said he saw signs of the growth in problem loans easing, but expected difficult trading conditions for the rest of 1991.

"Our problem loans remain concentrated in the small and medium-sized business sector, particularly in our home base of Victoria where manufacturing industry and *the property sector* have been hardest hit by recession," he said.

Institutional investors in Australia are also concerned that the bank's interim dividend has more than halved *to* 10 cents. *Despite* the dividend cut, the payout of A$100.3m almost accounts for the A$104.8m net profit.

Return on shareholders' funds fell to 4.8 per cent, compared with 18 per cent a year ago. Brokers revised their full year profit forecasts from about A$350m to between *A$300m and A$320m and they* expect a full-year dividend of 22 cents to 24 cents.

ANZ's shares dipped sharply by 14 cents to A$3.71 after release of the profit figures yesterday, while the shares of its two competitors both rose on the day.

Toray turns in record results

By Emiko Terazono in Tokyo

TORAY, the Japanese *synthetic fibre maker*, announced a 4 per rise in consolidated pre-tax profits to a record Y72.7bn ($528m) for the year to March 1991.

Sales rose 8.7 per cent to Y917.1bn due to strong growth in the fibre division, with polyester filament offsetting price rises in raw materials such as naptha and higher interest payments.

Toray posted a 6.9 per cent decline in after-tax profits, but the previous year's figure had been boosted by land sales.

Fibres and textiles sales increased 4.3 per cent to Y443.8bn due to brisk sales in the company's Tetoron fibres, and fabrics for sportswear. Toray's plastics and chemicals division saw a 5.4 per cent rise to Y229bn in sales of resins and polyester film for magnetic tape.

Toray posted a 1.6 per cent rise in unconsolidated pre-tax profits to Y56.2bn on a 6.6 per cent increase in total sales to Y585.4bn. After-tax profits fell 7.7 per cent to Y28.9bn.

For the current year, the parent company expects pre-tax profits to remain flat at Y56bn due to higher labour and transportation costs and interest rate payments. Sales are expected to rise 7.6 per cent to Y630bn. Toray expects to increase capital spending by 21.5 per cent to Y58bn.

Yamanouchi edges ahead despite decline in prices

By Neil Weinberg *in Tokyo*

YAMANOUCHI Pharmaceutical, one of Japan's top drug makers, overcame a decline in prices last year to post gains in sales and pre-tax profits for the year *to end-March*.

Pre-tax profits advanced by 2.7 per cent to Y59.61bn ($428.8m) on sales 9.3 per cent ahead at Y213.18bn. Strong demand for mainline anti-ulcer and anti-gastritis drugs, plus higher royalty revenues, was behind the strong performance.

The Japanese government has *forced* price cuts for a number of drugs, and these have put pressure on industry earnings. However, Yamanouchi predicts sales will climb 3.3 per cent to Y220bn and pre-tax profits by the same amount to Y61bn in the year to end-March 1992.

Company officials expect a *drug* to treat schizophrenia to gain approval under Japan's national health insurance programme by the end of this month. Approvals for oral contraceptives and treatments for urinary disturbances and *hypersensitivity are likely* to follow in 1992.

Spalvins sells half of his share stake in Adsteam

By Mark Westfield

MR JOHN Spalvins, departing Adelaide Steamship Company chief executive, has sold half of his shares in the company as part of a share and option deal to cash in his rights to shares *in the proposed A$235m* (US$183.5m) National Foods Limited flotation.

Minority Adsteam shareholders have been granted by the Australian Stock Exchange preferred rights to one National Foods share for every 5.78 Adsteam shares they hold. National Foods will buy most of the food businesses *of* Adsteam Associates Industrial Equity for A$411.4m and float next month before listing.

Mr Spalvins sold 8.7m shares through the market for 11.5 cents. The same parcel was then sold to unknown buyers for 14.5 cents a share.

Mr Spalvins is expected to buy back the shares when they go ex-rights after May 29 for 3 to 4 cents each. He is one of the largest individual holders of Adsteam shares, but about half of his 17.7m shares are locked up in the company's employee share scheme.

Mr Spalvins, who will step down as Adsteam chief executive on July 5, also has 1.135m shares in the *associate* company David Jones whose shareholders are entitled to one National Foods share for every 2.28 David Jones shares held.

Hiroshima Bank does better than expected

By Neil Weinberg

HIROSHIMA Bank, which ranks seventh among Japanese regional banks in fund volume, posted a 5.6 per cent rise in pre-tax profits to Y25.36bn ($182.4m) for the year to end-March.

The bank earlier had expected pre-tax profits to drop 24 per cent as a result of rising fund-raising costs.

However, it said that the value of its *stock portfolio* recovered sharply in the second half of the year. Profits from loans and bond trading also surpassed expectations.

The bank, active in the Japan Sea region, is predicting pre-tax profits will fall 10.5 per cent for the current year to March 1992 to Y22.8bn, with no further stock *portfolio* gains expected.

Oji Paper falls 36%

By Neil Weinberg

OJI Paper, Japan's largest paper manufacturer, suffered a 36.7 per cent plunge *in* pre-tax profits to Y25.8bn ($185.6m) for the year to end-March.

Heavier interest payments for Y101.8bn in capital spending were blamed for the disappointing profit figures. Sales for the year *rose only* 2.8 per cent to Y481.9bn due to lower paper prices.

Oji expects to post a 22.7 per cent drop in pre-tax profits to Y20bn for the year to end-March 1992, which would be the third consecutive decline. Continued high depreciation costs and rising distribution and *material* expenses were cited as reasons for the grim forecast.

Sales are projected to rise 5.2 per cent to Y507bn and capital spending is set at Y47bn.

INTERNATIONAL CAPITAL MARKETS

French yields rise sharply as political fears mount

By Sara Webb in London and Patrick Harverson in New York

FRENCH government bonds fell yesterday on political worries and rumours that the government might introduce a withholding tax. The market is showing signs of nervousness about economic policy under Mrs Edith Cresson, the new prime minister, traders said.

The yield on the French government bond with a 9.5 per cent coupon, due January 2001, rose to 8.94 per cent yesterday afternoon, compared with 8.85 per cent at Tuesday's close. The Matif futures contract opened at 106.60 and fell back to 106.30 by late afternoon.

The yield spread between 10-year French and German government bonds widened by a further three to four basis points to 59 basis points; compared with 44 two weeks ago.

Traders said that there has been a marked switching out of the French government bond market in recent days following dissatisfaction that the Bank of France has not delivered the long-awaited cut in the interest rate.

GOVERNMENT BONDS

Elsewhere in Europe, German government bonds firmed following the US lead. The Liffe bund future, which closed at 85.36 on Tuesday, traded at around 85.52 by late afternoon.

The Bundesbank announced yesterday that it will offer four-year Treasury notes with a fixed coupon of 8¾ per cent at its auction today, the first of a series of such tender sales. Results are due in the afternoon. A portion of the issue will be set aside for the Bundesbank's market operations.

■ UK government bonds opened up slightly higher on the back of the strong US Treasury bond market, but later fell back. The benchmark 11¾ per cent gilt due 2003/07 rose $\frac{1}{16}$ to 109$\frac{5}{8}$ to yield 10.35 per cent, while the shorter-dated gilts barely changed on the day. The Bank of England said it had exhausted its £100m tranche of index-linked stock due 2001.

■ JAPANESE government bond prices fell yesterday ahead of the monthly auction of 10-year bonds, due to worries about oversupply. Traders said there had been some heavy selling by city banks of their bond portfolios in recent days, helping to depress prices.

However, the auction of Y800bn of bonds was well received with the big four brokers taking over half of the issue which carries a coupon of 6.5 per cent.

■ TRADING on the US bond market was again quiet yesterday morning, with prices slightly easier across the board ahead of the second tranche of the week's Treasury refunding issue.

By midday, the benchmark 30-year government bond was down $\frac{1}{8}$ at 98¾, yielding 8.255 per cent. The short end was also weaker, down $\frac{1}{32}$ at 100$\frac{1}{32}$, to carry a yield of 6.804 per cent. Activity was reported to be very light, said analysts.

The market's attention remained firmly focused on the auction of $12.25n in two-year notes, which was due later in the afternoon. Although it was expected to go well there was some worry that tomorrow's auction of five-year notes would prove less popular.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS		13.500	09/92	103-22	+00/32	10.41	10.53	10.61
		9.000	03/00	92-29	+01/32	10.24	10.29	10.16
		9.000	10/08	91-19	-02/32	10.03	10.05	9.86
US TREASURY *		8.000	05/01	99-22	-01/32	8.05	8.12	8.11
		8.125	05/21	98-18	-02/32	8.26	8.32	8.26
JAPAN	No 119	4.800	6/99	88.4360	-0.086	7.04	7.07	7.11
	No 129	6.400	03/00	98.8836	-0.137	6.84	6.84	6.74
GERMANY		9.000	01/01	104.0600	0.260	8.35	8.44	8.44
FRANCE	BTAN	9.000	02/96	100.1599	-0.038	8.93	9.00	9.10
	OAT	9.500	01/01	103.6800	-0.310	8.90	8.87	8.90
CANADA *		9.750	06/01	101.2500	+0.200	9.55	9.63	9.74
NETHERLANDS		8.500	03/01	99.3100	+0.180	8.60	8.66	8.63
AUSTRALIA		13.000	07/00	114.8844	+0.380	10.43	10.59	11.01
BELGIUM		10.000	08/00	105.0000	+0.050	8.16	8.96	9.00

London closing, *denotes New York morning session
Yields: Local market standard. Prices: US, UK in 32nds., others in decimal
Technical Data/ATLAS Price Sources

Euroquote christening may become its funeral

Richard Waters describes the latest epic European struggle over what should be done to promote cross-border share trading

THIS weekend is an important national holiday in Greece. It marks the anniversary of the Battle of Crete, one of the bloodiest of Second World War encounters.

As if in celebration, there will be fresh blood on the floor. For at the Zappion conference centre in Athens, European nation will again confront European nation in epic struggle.

The cause: the seemingly endless tussle between stock market authorities over what, if anything, they should do to promote greater cross-border share trading within the European Community.

Many officials of the 12 nations gathering for the two-day Athens meetings, which starts today, are expecting the worst.

It is now two years since the bourses, through the Federation of Stock Exchanges in the European Community, first agreed to a joint venture through which they would seek to serve the European cross-border equity market.

That initiative looks finally to have come to nothing – at least as originally envisaged.

The exchanges' attention has been focused on the creation of a joint network to disseminate share prices and company news.

In time, that would have been developed into a full-blown trading system, eventually linked to arrangements for settling cross-border deals.

Called Euroquote, the venture already exists as a separate company and has a skeleton staff.

It now needs Ecu12.3m of new capital to continue its development.

This is the point at which the exchanges must finally decide whether they want to proceed with Euroquote in its present form.

The answer is likely to be "No".

Two countries, the UK and Germany, seem likely to vote against the idea.

Between them they speak for eight of the 27 votes on Euroquote.

Without their support, it seems impossible for the proposal to proceed.

The UK's objections were based, in the early days of Euroquote, on the argument that no one had made a proper business case for the development of the system, and that it should be based on a proper commercial case rather than a visionary hope.

In recent weeks, the London Stock Exchange has been more open about its real objection: that its own price quotation system, SEAQ International, already supports a substantial international equity market in London, so why should it give up its leadership without a fight?

The German objections are more difficult to decipher.

The Federation of German Stock Exchanges has never been keen on stage one of Euroquote (price dissemination), and in recent weeks seems to have turned away as well from the creation of a full trading system.

Its interest seems instead to have turned to cross-settlement arrangements, arguably an area where the infrastructure to support cross-border deals is far more necessary.

The French, who also hold four votes in Euroquote, have also been lukewarm about Euroquote, but have given little public indication about their voting intentions.

Only the Spanish, the only other holders of four votes, seem committed to the idea. Faced with such opposition, it seems likely that Euroquote will not get the backing it needs, though a face-saving accommodation may be possible to allow it to limp on in some form.

If the bourses can't agree on a way to serve the cross-border share market, who can? Considerable work has already been carried out by GE Information Systems (the contractor selected to build the system) and Quotron (another contractor eliminated at an earlier stage): it seems likely that, if the exchanges decide not to go ahead, one or other of these will look to find alternative backers.

Candidates are likely to be information suppliers, like Reuters, and stock market participants (after all, banks already have plenty of experience of joint electronic projects like Swift, the international payments system). For rivals, Athens could prove the turning point.

Novo Nordisk shares to be sold abroad

By Stephen Fidler, Euromarkets Correspondent

A SIGNIFICANT proportion of the 4.5m shares to be created under a rights issue by Novo Nordisk, the Danish health care and pharmaceuticals company, will be sold in the international market.

Goldman Sachs International, which together with Den Danske Bank has formed an underwriting group for the offering of B shares, said one prominent shareholder, the Novo Nordisk Foundation, has indicated that it will not take up its rights to about 620,000 shares, all of which will be placed internationally. Using a technique it used previously in rights offerings from Volkswagen and Norsk Hydro, Goldman will attempt to buy up other rights in Denmark in order to create shares for an offering in the international market.

● Goldman Sachs is also arranging the placement in the US of some 3.2m shares of Elf Aquitaine, the French state-owned oil company, under a previously-reported offering of 7.6m shares.

They will be offered in the US under the Securities and Exchange Commission's private placement rule rule 144a, with an over-allocation option of a further 400,000 shares. Some 2.6m shares are being offered in the international market through Paribas and 1.8m in France through Banque Nationale de Paris.

The total offering, which accounts for 3 per cent of share capital and is being made to coincide with the listing on the New York Stock Exchange of Elf's shares, is expected to raise about $500m.

FT/AIBD INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 6:35 pm on May 22

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
ABBEY NATIONAL 8 7/8 93	150	101⅞	102⅜		7.69
ALBERTA PROVINCE 9 3/8 93	600	103¾	104¼		8.30
AUSTRIA 8 1/2 00	400	99⅛	99½	+⅛	8.63
BANK OF TOKYO 8 3/8 96	100	99¼	99¾	+⅛	8.56
BELGIUM 9 1/8 92	400	102⅛	102⅝	−⅛	7.32
BFCE 7 3/4 97	150	98⅛	98⅜	+⅛	8.13
BNP 8 5/8 94	300	102	102⅜		7.87
BP CAPITAL 9 5/8 93	150	102⅝	103⅛	−⅛	7.81
CANADA 9 96	1000	103⅝	104		8.04
CARCO 9 1/4 96	650	99⅞	100⅜		9.29
CCCE 9 1/4 93	300	104	104⅜	+⅛	7.96
COUNCIL EUROPE 8 96	100	98⅞	99⅜		8.29
CREDIT FONCIER 9 1/2 99	300	104⅝	105	+⅛	8.62
DENMARK 0 98	250	55⅛	55⅜		8.62
DENMARK 8 1/4 94	150	101⅛	101⅝		7.82
ECSC 8 1/4 96	193	100⅛	100⅜	+⅛	8.17
EEC 7 1/4 93	250	100	100⅜	+⅛	7.22
EIB 7 3/4 96	250	98⅝	98⅞	+⅛	8.14
EIB 9 1/4 97	1000	103⅝	103⅞	+⅛	8.48
ELEC DE FRANCE 9 98	200	102⅝	103	+⅛	8.47
EUROFIMA 9 1/4 96	100	102⅞	103⅜	+⅛	8.48
EXPORT DEV CORP 9 1/2 98	150	104⅝	105⅛	+⅛	8.57
FINLAND 7 7/8 97	300	96⅝	97⅛		8.63
FINNISH EXPORT 9 3/8 95	200	103⅝	104⅛	+⅛	8.30
FORD MOTOR CREDIT 9 1/2 93	300	102⅞	103⅜	+⅛	8.10
GEN ELEC CAPITAL 9 3/8 96	300	103⅞	104⅜	+⅛	8.40
GMAC 9 1/8 96	200	101⅛	101⅝	+⅛	8.81
HALIFAX 9 1/2 93	200	103⅛	103⅝	+⅛	7.74
IBM WORLD TRADE 7 5/8 93	150	99⅞	100⅜	+⅛	7.76
IND BK JAPAN FIN 7 7/8 97	200	96⅞	97⅜	+⅛	8.57
INTER AMER DEV 7 5/8 96	200	97⅛	97⅝	+⅛	8.27
ITALY 8 1/2 94	1500	101⅞	102⅛		7.83
JAPAN DEV BK 8 94	150	100⅞	101⅛	+⅛	7.66
KANSAI ELEC PWR 10 96	350	105⅛	105⅝	+⅛	8.65
LTCB 8 5/8 93	150	101⅛	101⅝		7.75
NEW ZEALAND 8 93	100	100⅝	101⅛	+⅛	7.72
NIPPON CRED BK 9 3/4 93	150	103⅝	104⅛	+⅛	7.92
NIPPON TEL & TEL 9 3/8 95	200	104⅛	104⅝	+⅛	8.05
NORDIC INV BANK 9 93	200	102⅞	103⅛		7.46
ONTARIO HYDRO 11 5/8 94	200	108⅝	109		8.08
OSTER KONTROLLBANK 8 1/8 93	200	101⅛	101⅝		7.34
PETRO-CANADA 7 1/4 96	200	95⅝	96⅛	+⅛	8.36
PRUDENTIAL RLTY SECS 0 99	365.216	50⅞	51⅛	+⅛	9.24
QUEBEC HYDRO 9 3/4 98	150	103⅝	104⅛	+⅛	9.01
QUEBEC PROV 9 98	200	100⅛	100⅝	+⅛	8.94
SAINSBURY 9 1/8 96	150	102	102⅜	+⅛	8.62
SAS 10 99	200	100	100⅜	+⅛	9.98
SEAB 9 1/2 93	500	104⅛	104⅝	+⅛	8.21
STATE BK STH AUST 9 1/4 93	100	102	102⅜	−⅛	7.91
SUMITOMO BK CAP MKT 9 3/8 95	150	102⅞	103⅜		8.02
SWEDEN 8 1/8 94	150	100⅞	101⅛		7.83
SWEDISH EXPORT 9 5/8 93	100	103⅛	103⅝		7.47
TOKYO METROPOLIS 8 1/4 96	200	99⅞	100⅛	+⅛	8.29
WORLD BANK 8 3/8 99	1500	100	100⅛	+⅛	8.55
WORLD BANK 8 3/4 97	1500	102⅛	102⅝	+⅛	8.30
XEROX CORPN 8 3/8 96	100	96⅛	97⅛	+⅛	9.24

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
DEUTSCHE BK FIN 5 5/8 96	750	88⅛	88⅝	+⅛	8.54
DEUTSCHE FINANCE 7 1/2 95	1000	97	97	−⅛	8.46
EEC 5 3/8 93	300	94⅛	94⅝	+⅛	8.97
EIB 5 3/4 98	400	86	86	+⅛	8.53
EIB 6 7/8 95	300	93⅛	93⅝	+⅛	8.59
EUROFIMA 6 1/4 98	400	87⅛	87⅝		8.60
FERRO DEL STAT 5 3/8 93	500	94⅛	94⅝		8.91
IND BK JAPAN FIN 5 5/8 96	200	87½	87½		8.86
IND DEV BK INDIA 6 3/8 94	200	88⅜	88⅞	+⅛	10.21
INTER AMER DEV 7 1/4 99	300	92⅛	92⅝	+⅛	8.52
LUFTHANSA INT FIN 5 7/8 98	500	85⅛	85½		8.75
MET EST & PROP INTL 7 99	150	85⅛	85½		9.69
NAT BK HUNGARY 8 96	200	90	90½		10.47
QUEBEC HYDRO 6 3/4 99	500	88⅜	88⅞		8.76
SWEDEN 6 1/8 98	500	87⅜	87⅞		8.54
VENEZUELA 8 1/4 93	100	95⅛	95⅝	−1⅛	10.54
WORLD BANK 0 15	2000	16⅛	16⅝	+⅛	7.64
WORLD BANK 5 3/4 96	300	87⅛	87⅝	−1⅛	9.17
WORLD BANK 7 1/8 98	500	94½	94⅞	−1	8.94

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
ASIAN DEV BANK 6 10	100	94½	95½	+1	6.50
AUSTRIA 4 5/8 98	100	91	92	+1	6.30
CHUJITSUYA 7 3/4 95	90	102⅛	103	+½	6.97
COUNCIL EUROPE 4 3/4 98	250	89⅝	90	+⅛	6.68
EEC 5 1/2 00	100	91½	92½	−½	6.73
EIB 5 3/4 93	100	97½	98		6.88
ELEC DE FRANCE 7 1/4 06	100	104½	105½	−½	6.75
FINLAND 5 3/8 95	150	95⅛	96		6.50
GENERAL MOTORS 7 1/2 95	100	102½	103	+½	6.74
JAPAN DEV BK 5 1/2 94	100	97⅛	98	+½	6.52
NEW ZEALAND 4 7/8 99	200	88⅜	89		6.89
QUEBEC HYDRO 5 08	100	82			6.83
SKANDINAVISKA ENSK 6 1/2 95	100	98⅛	99⅛		6.96
WORLD BANK 5 05	150	86⅛	87		6.65
WORLD BANK 7 1/4 92	100	100	101⅛	−½	7.22

YEN STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
AUSTRIA 4 3/4 94	30000	94½	94⅞		7.02
CANADA 4 3/8 92	80000	96⅞	97⅛		7.45
CREDIT FONCIER 5 1/4 94	20000	93⅞	94⅛	−⅛	7.24
DENMARK 7 95	40000	100⅛	100⅝		6.95
EIB 4 5/8 94	40000	93⅝	94	−⅛	7.04
GENERAL ELECTRIC 5 3/4 93	35000	97	97½	+⅛	7.52
INTER AMER DEV 7 1/4 00	30000	102⅞	103	−⅛	6.83
ITALY 5 3/4 92	150000	98⅞	99⅛	−⅛	7.31
KANSAI ELEC PWR 4 5/8 94	60000	93⅛	93⅞		7.10
NIPPON TEL & TEL 5 7/8 96	50000	96⅛	96⅝		6.75
NORWAY 5 1/8 95	50000	94⅛	94⅝		6.90
SWEDEN 5 5/8 95	20000	95⅛	95⅝		6.95
WORLD BANK 6 3/4 00	50000	100	100⅛	−⅛	6.74

OTHER STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
BAYERISCHE VEREINSBK INT 7 94 LFr	600	92⅞	93⅜	−⅛	9.76
KREDIETCORP 7 93 LFr	1000	94½	95½	−⅛	9.86
WORLD BANK 8 96 LFr	1000	96	97	+⅛	9.04
AMRO BANK 6 1/4 92 Fl	150	96⅛	96⅝		9.69
RABOBANK 5 3/4 93 Fl	150	94½	95⅛		9.22
ALBERTA PROVINCE 10 92 C$	500	100⅛	100⅝	+⅛	9.70
BCE INC 9 5/8 93 C$	300	99⅛	99⅝	+⅛	10.05
BELL CANADA 10 5/8 99 C$	150	100	100½	+⅛	10.61
BRITISH COLUMBIA 9 1/4 93 C$	150	99	99⅝		9.84
EIB 10 1/8 98 C$	130	99⅞	100⅜	−⅛	10.16
FORD CREDIT CANADA 10 94 C$	100	98⅝	98⅞		10.59
GENERAL ELECT CAP 10 1/4 93 C$	175	100⅝	101⅛	+⅛	9.82
MONTREAL TRUSTCO 8 1/2 92 C$	100	98	98⅜	−⅛	10.79
ONTARIO HYDRO 10 7/8 99 C$	500	101⅞	102⅛		10.50
QUEBEC PROV 10 1/2 98 C$	200	99⅝	100⅛	+⅛	10.55
ROYAL TRUSTCO 10 1/4 93 C$	100	99⅛	99⅝		10.75
SWEDEN 9 3/4 93 C$	250	100⅜	100⅞		9.52
BELGIUM 9 1/8 96 Ecu	1250	100⅛	100⅞		8.91
CNT 7 3/8 95 Ecu	250	95⅛	96⅛	−⅛	9.76
CREDIT LYONNAIS 9 96 Ecu	125	97⅞	98⅜	−⅛	9.69
DENMARK 7 5/8 96 Ecu	250	91⅝	92½	−⅛	9.85
EEC 7 5/8 94 Ecu	200	96⅛	97⅛	+⅛	8.98
EIB 10 97 Ecu	1125	105	105⅛		8.83
ITALY 10 3/4 00 Ecu	1000	109⅞	110	−⅛	9.08
UNITED KINGDOM 9 1/8 01 Ecu	2750	101⅛	101⅛	−⅛	8.94
BMW FINANCE 14 1/2 92 A$	100	102⅛	102⅞	+⅛	11.84
COUNCIL EUROPE 13 93 A$	50	101	102	−⅛	12.25
EKSPORTFINANS 12 3/8 95 A$	75	103⅛	104	+⅛	11.24
FORD CRED AUST 13 93 A$	50	100	101	−⅛	12.92
ICI 15 1/2 92 A$	100	103½	104⅛		11.66
MCDONALDS CANADA 15 93 A$	100	109⅝	110⅛		11.88
NAT AUSTRALIA BANK 14 3/4 94 A$	150	106⅝	107⅛	+⅛	11.70
STATE BK NSW 14 1/4 99 A$	100	112⅛	112⅝	−⅛	11.85
VOLKSWAGEN INTL 15 94 A$	100	107⅞	108⅛	+⅛	11.68
ABBEY NATL TREAS 13 3/8 95 £	100	105⅛	106⅛	−⅛	11.37
BARCLAYS JERSEY 9 1/2 95 £	250	97⅛	97⅝		11.09
BRITISH GAS 12 3/4 93 £	300	105	105⅛		11.00
DEUTSCHE BK FIN 11 94 £	225	100⅛	100⅞	+⅛	10.77
EIB 10 97 £	306.5	96⅛	97	+⅛	10.80
FORD CREDIT FUNDING 9 5/8 93 £	50	96	96⅝	−⅛	12.08
INTER AMER DEV 11 3/8 95 £	75	101⅞	102⅜		10.77
ITALY 10 1/2 14 £	400	92⅞	93⅛		11.38
LAND SECS 9 1/2 07 £	200	80⅝	81		12.33
LEEDS PERMANENT 9 1/4 93 £	50	96⅛	96⅝		11.51
NORWAY 10 1/2 94 £	200	99⅛	99⅝		10.78
ROLLS-ROYCE 9 5/8 93 £	150	96⅛	96⅝		11.70
SAINSBURY 10 7/8 93 £	100	99⅜	99⅞	+⅛	11.22
SKANDINAVISKA ENSK 13 1/8 95 £	100	104⅞	105⅜	+1	11.42
WORLD BANK 11 1/4 95 £	100	101⅝	102⅛	+⅛	10.72
ABBEY NATIONAL 0 96 NZ$	100	57⅝	58⅝	+1⅛	10.82
TELECOM NZ O/S FIN 13 1/8 93 NZ$	75	105	106	+⅛	10.52
AIDC 7 7/8 93 FFr	600	97	97⅜		9.31
CREDIT LYONNAIS 10 95 FFr	3200	102	102⅜		9.38
EURATOM 7 5/8 98 FFr	500	92⅛	93⅛		9.07

FLOATING RATE NOTES	Issued	Bid	Offer	C.cpn
ALBERTA PROVINCE 1/32 93	500	100.04	100.14	7.5938
ALLIANCE & LEICS 0.08 94 £	300	99.59	99.68	11.9500
BANCO ROMA 0.03 01	200	93.58	94.92	7.9363
BANCO SANTO SPIRITO 93	200	99.65	99.78	6.5000
BELGIUM 1/16 97 DM	500	99.94	100.08	9.1250
BFCE -0.02 96	350	100.05	100.15	7.7925
BNP 95	300	96.00	96.75	6.0625
BRITANNIA 1/10 96 £	150	99.23	99.42	11.9750
CCCE 06 ECU	200	99.98	100.00	9.4435
CITIZENS FED 0.15 96	100	99.42	99.70	7.0250
COMMERZBK O/S FIN 93	200	99.91	100.01	6.5625
DENMARK -1/8 96	1000	99.63	99.75	6.5938
DRESDNER FINANCE 1/32 98 DM	1000	99.75	99.86	9.2656
ELEC DE FRANCE 1/8 99	400	100.25	100.56	7.0000
FERRO DEL STAT 94	200	100.61	100.85	6.8750
HALIFAX 1/10 94 £	200	99.84	99.94	11.7250
HILL SAMUEL 1/4 PERP	75	82.51	85.51	8.5000
MITSUI FIN ASIA 1/8 96	100	99.72	99.82	7.0000
MORGAN (JP) 1/4 97	250	98.71	99.38	7.0625
NAT WEST FIN 3/16 05	400	92.63	94.38	6.5000
NEW ZEALAND 93	500	99.74	99.84	6.5000
QUEBEC PROV 01	300	96.79	97.04	6.1250
RENFE 98	500	99.91	100.01	6.0625
SOCIETE GENERALE 96	300	99.20	99.30	6.3125
STATE BK VICTORIA 0.05 99	125	98.60	98.85	7.8625
UNITED KINGDOM -1/8 96	4000	100.04	100.07	6.1875

CONVERTIBLE BONDS	Issued	Conv. price	Bid	Offer	Prem.
ARGYLL GROUP 4 1/2 02 £	60	2.95	113⅛	114⅛	+12.49
ASDA-MFI 4 3/4 02 £	100	1.64	117	118	+72.86
BURTON GROUP 4 3/4 01 £	110	3.15	118½	120	
EASTMAN KODAK 6 3/8 01	300	50.67	95⅛	96⅛	+18.33
GOLD KALGOORLIE 7 1/2 00	65	1.0554	64⅛	65⅛	+42.15
GOODYEAR TIRE 6 7/8 03	150	80⅛	67⅛	68½	
GRACE (WR) 6 1/4 02	150	42⅛	85⅛	86⅛	+21.22
HANSON 9 1/2 06 £	500	2.9875	98⅞	99⅝	+18.72
HAWLEY 6 02 PREF	400	1.91	87⅛	89⅛	
HILLSDOWN 4 1/2 02 £	150	4.16	108⅛	109⅝	+96.65
INTL PAPER 5 3/4 02	200	68⅛	99½	100½	+8.40
LAND SECS 6 3/4 02 £	84	6.72	83⅝	84⅝	+6.03
MITSUBISHI BK 1 3/4 02	300	2727.1	111	119	−1.83
OGDEN 6 02	85	39.077	69⅞	70⅞	+44.40
PACIFIC DUNLOP 6 3/4 97	75	3.749	113⅛	114⅛	−0.32
TEXAS INSTRUMENTS 2 3/4 02	300	82⅛	83	84	+67.81
THORN EMI 5 3/4 04 £	103	7.45	112⅛	113⅛	+25.67

* No information available - previous day's price.
‡ Only one market maker supplied a price

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day.

FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (‡three-month §above mean rate) for US dollars. C.cpn=The current coupon.

CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

INTERNATIONAL CAPITAL MARKETS

EIB provides further test for Euroyen sector

By Simon London

THE European Investment Bank maintained the recent supply of yen-denominated paper in the international bond market yesterday, launching a Y50bn issue.

The 10-year deal, lead-managed by IBJ International, brings to Y170bn the amount of Euroyen bonds launched since KFW, the German financial institution, re-opened the market for large international issues two weeks ago.

Bonds offered yesterday carry a 6¾ per cent coupon and were re-offered to investors at a fixed price of 99.45.

At this level the yield is 6.83, a pick up of 5 basis points over the yield on the Y50bn World Bank issue launched via Nomura last week.

Participants in the deal commented that demand for longer-dated Euroyen bonds was growing among European institutional investors, raising the prospect of more sovereign or supranational issues.

The recent spate of Japanese borrowers issuing in sterling has created opportunities for swapping the proceeds of yen issues into the UK currency.

Yesterday's issue was partially swapped into floating-rate sterling.

The EIB also offered L600bn 10-year paper in a deal lead managed by Banca Commerciale Italiana.

INTERNATIONAL BONDS

The paper carries a coupon of 11.10 per cent and was re-offered at 99.95.

However, the bonds traded up to 100.90 bid when freed to trade, surprising even the lead manager.

The deal was supported by demand from Italian investors, which do not pay withholding tax on bonds issued by a number of supranational institutions, including the EIB.

The performance suggests that either the deal was priced too cheaply for the Italian market, or that overseas demand for quality lira assets at this maturity is still growing.

The Italian government launched its first fixed-rate 10-year bond in February.

The Eurodollar sector is also regaining confidence following several weeks of subdued activity.

Recent issuance has been dominated by borrowers offering higher-yielding assets at gradually longer maturities.

Yesterday, Cassa Di Risparmio Delle Provincie Lombarde (Cariplo), the Italian savings institution, offered $200m seven-year paper in a deal lead managed by Nomura International.

The 8¾ per cent paper was re-offered at a fixed price of 99¾, where the yield spread over US government securities is 70 basis points.

This offers a small pick-up over recent comparable deals now in the secondary market.

For example, Crédit Lyonnais' $300m seven-year deal was launched at a yield spread of 74 basis points last week but has now tightened in to around 62 basis points.

Elsewhere, the anticipated upturn in issuance of convertible bonds by European companies began with a Fl200m deal from Wolters Kluwer, the Dutch publishing house, lead managed by Bank Mees & Hope.

Late in the day, Beghin-Say, the French sugar and food oils group, launched a FFr2bn convertible deal lead managed by Crédit Lyonnais – of which FFr455m will be placed internationally.

The company also announced a one-for-five rights issue yesterday, and the bonds offer conversion into Beghin-Say shares at a 12 per cent premium to the ex-rights share price.

The bonds carry a 7¼ per cent coupon but unconverted bonds will be redeemed at 110 per cent of face value in 1999, giving a yield of 8.27 per cent.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
Cariplo (London Branch)(b)†	200	8¾	101⅛	1998	1⅞/1.825	Nomura Int.
Toyo Construction(a)♦	100	4½	100	1996	2¼/1½	Nomura Int.
AUSTRALIAN DOLLARS						
IBM Australia Credit(a)†	100	11	101½	1996	2/1½	Hambros Bank
FRENCH FRANCS						
Beghin-Say(f)§†	455	7.25	100	1999	2.6/1½	Credit Lyonnais
D-MARKS						
Dresdner Finance BV(c)†	100	12½	(c)	1995	-	Dresdner Bank
LIRE						
EIB(a)†	600bn	11.10	101½	2001	1⅞/1¼	Bca.Comm.Italiana
GUILDERS						
Wolters Kluwer NV(d)§†	200	6½	100	1999	2½/1½	Bank Mees & Hope
FINNISH MARKKA						
Bque.Nationale d'Paris(a)†	300	11.20	102	1996	1⅞/1⅜	Union Bank of Finland
YEN						
EIB(a)†	50bn	6¾	99.45	2001	32.5/17.5bp	IBJ Int.
Hanil Bank(e)‡†	10bn	(e)	100.35	1996	35/20bp	Daiwa Europe

★★Private placement. §Convertible. ♦With equity warrants. ‡Floating rate note. †Final terms. a) Non-callable. b) Deal issued in form of Depositary Receipts via Law Debenture Trust Corp. Non-callable. c) Issue and redemption prices are linked to the Dax index. d) Early redemption 20/6/96 at 103% declining by 1% per annum. Callable from 1/1/93 if 130% rule applies. e) Coupon pays 30bp over 6-month Libor. Non-callable. f) Total amount of issue - FFr2bn. Callable at par from 1/1/94 to 31/12/96. Unconverted bonds will be redeemed at 110% on 1/1/99. Conversion premium fixed at 12% over the ex rights share price.

Securities role urged for Japan's banks

By Emiko Terazono in Tokyo

THE Japanese banking industry has produced a report for the Ministry of Finance stressing the importance of banks' entry into securities activities as part of the liberalisation of the Japanese financial system.

The report, prepared by the committee of the Financial System Research Council, an advisory panel to the Ministry of Finance, echoes the industry's arguments that banks be allowed into the securities industries through subsidiaries.

Ministry officials are at the final stages of the assessment on the ongoing financial reforms, and the draft is the last of the reports prepared by the committee, which represents the interests of the banking industry.

A report backed by Japan's securities houses recently reaffirmed the industry's opposition to banks entering stock broking, the most lucrative part of the securities business.

The Financial System Research Council's report proposes that although banks should be restricted from broking at the initial stages of deregulation, specific subsidiaries should eventually be allowed to enter businesses permitted under law.

The report's recommendations that "firewalls" between the securities and banking business within the same institution should be kept at a minimum is also likely to trigger controversy.

The report is also likely to trigger renewed debate over the prolonged reform of Article 65 of the Securities and Exchange Law – Japan's version of the Glass-Steagall Act in the US. Some proposals have highlighted the differences within the banking industry. Japanese commercial banks, or city banks, are angered by the proposals that long-term credit and trust banks, with far fewer branches than the city banks, should be given priority in entering the securities business.

Final reports by the advisory groups are expected to be presented early next month.

Learning to live with municipal risk

Simon London on the growing dilemma for international bankers

THERE was once an unchallenged assumption in the capital markets that local government carried the implicit guarantee of central government. However, recent events in Europe are forcing bankers to differentiate between municipal and sovereign credit risk.

Events such as the UK local authority swaps case – in which it was ruled illegal for local authorities to enter into interest-rate swaps contracts – have underlined that central government will not automatically bail out local government.

But the focus is not only on the UK. In Spain, the southern local authority of Aguilar de la Frontera, in the Cordoba region, last month defaulted on a Pta350m ($3.27m) eight-year loan arranged through Banco Portugues do Atlantico and Mitsubishi Bank. The banks thought the credit carried a central government guarantee; the issue will now be decided in the courts.

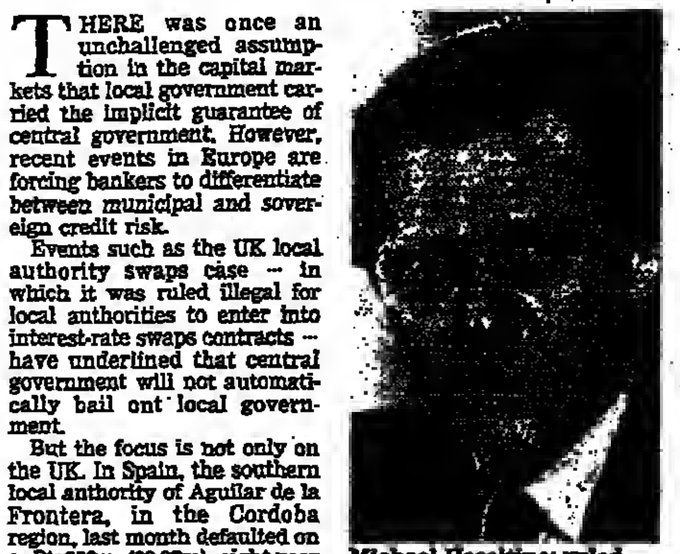
There are similar cases in France. For example, the city of Angoulême, in western France, is currently facing a budgetary deficit of FFr170m ($29.3m) and an appeal for central government intervention did not yield results. In September, the city government suspended debt service payments. It has asked banks to waive interest payments over five years. If this is granted, the banks' losses could total FFr450m.

A report published last month by Moody's Investors Service, the US credit rating agency, noted "greater uncertainties about the predictability of the behaviour of central governments towards subnational governments in their territory – in particular, ill-managed local authorities".

Ms Thuy Tranthi, a Moody's analyst, does not believe that credit risk is rising for all local governments. Rather, the relative risks are widening.

However, analysing the credit risk of a local authority is no simple matter. Loans to local authorities are usually secured on the revenue accruing to the borrower rather than municipal assets. Hence the power of local authorities over revenue and expenditure is a vital component of the overall credit risk.

"Changes in scope and method of revenue collection can cause significant changes in non-payment rates, which could affect the financial health of the local authority," said Ms Tranthi.



Michael Heseltine: ruled out retrospective validation

The introduction of the UK community charge is a case in point. Rate capping of UK local authorities has also restricted the amount which can be levied in local taxes.

Equally, controls over expenditure can take a number of forms. Spanish communidads face strict limits as to the amount of debt which can be incurred – the government will only guarantee debt up to 25 per cent of the local authority's earnings and if repayment does not exceed 5 per cent of annual cash flow.

Many countries demand that local government budgets are balanced. Independent auditors, such as the UK National Audit Office and the French regional courts of account, are also powerful checks on expenditure and borrowing.

Moreover, local authorities have become more sophisticated in their use of debt instrument and debt management techniques. Unexpected contingent liabilities can arise from off-balance sheet exposures such as guarantees. As new financing and risk management techniques are developed, legislation and regulation does not always keep pace.

Moreover, it is not always clear just what legislation does allow.

Early judgments in the local authority swaps case ruled that the authorities were quite entitled to use the swaps market – so long as they used it for a specific purpose: risk management. However, the final judgment made clear that the central issue was whether the authorities were empowered to use the swaps market at all without the specific sanction in law.

However, UK law, in the form of the Local Government and Housing Act, is not very specific. Section 1.11 of the Act allows local authorities to undertake transactions which "facilitate or are ancillary to borrowing".

While Mr Michael Heseltine, the environment secretary, has ruled out legislation to retrospectively validate existing swaps contracts, the financial powers of local government may still require clarification.

The Chartered Institute of Public Finance Accountants (Cipfa), which represents most UK local authority treasurers, has joined the British Bankers Association in calling for legislation to be tightened up.

Straight borrowing by UK local authorities is not seen as a problem. But, in the absence of tighter legislation, local authorities which need to refinance off-balance sheet credit arrangements, sale-and-leaseback agreements, development finance deals are finding the market nervous.

In an attempt to soothe the nerves of the banking community, many authorities are considering applying for credit ratings. Both Moody's and Standard & Poor's rate local government bodies in other countries and have looked at the rating criteria which could be applied in the UK.

However, there are worries that neither the rating agencies nor the banks are fully qualified to rate UK local authorities. Both the Audit Commission and Cipfa are concerned that inadequate ratings are worse than no ratings at all.

Cipfa is working on its own credit rating criteria which it hopes will be adopted by rating agencies and banks alike. "If city institutions are exercising a kind of informal credit rating system already, then it is better to bring the whole issue out into the open and introduce some rationality into the process," commented Mr Bernard Harty, chamberlain of the City of London and chairman of Cipfa's treasury management committee.

But credit ratings will not solve the central problem that the law gives only the broadest indication of what the financing powers of UK local authorities are. Leasing activity, guarantees, indemnities and other off-balance sheet finance activities might all – if challenged in the courts – be judged to fall outside the law. It is doubtful whether even the most accurate credit rating can rate the willingness of a local authority to test the outer limits of legislation.

In the absence of either a formal system of credit rating or legal clarification, UK authorities are concerned that they are paying more than necessary for finance.

"There is a feeling that local authorities are being asked to pay more than is necessary – including expensive legal opinion for every transaction," said Mr Richard Harbard, chief executive and treasurer of Richmond borough in south-west London.

Business is still being done. For example, the London borough of Islington is close to completing a £200m refinancing of a deferred purchase arrangement with a group of overseas banks.

Mr Alan Stenning, director of finance, said the negotiations were clouded by the impact of the swaps case.

"Anything other than straight borrowing has become more difficult," he said. "Foreign banks burnt by the swaps case have pulled back from the market, some of them completely."

Among the complex refinancing arrangements considered by Islington to satisfy the banks was a form of loan insurance provided by a US company which carries a top triple-A credit rating. However, such a solution would have meant Islington being rated by an outside agency to satisfy the insurance company. This was a process Mr Stenning could not accept.

"All UK local authorities should carry the same credit rating," he said. "Being rated by an outside agency will only add to the cost of local government."

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

	EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Wed May 22 1991 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (25%)	Est. P/E Ratio (Net)	xd adj. 1991 to date	Tue May 21 Index No.	Mon May 20 Index No.	Fri May 17 Index No.	Year ago (approx) Index No.
1	CAPITAL GOODS (186)	823.71	-0.6	11.34	5.90	10.82	15.76	828.40	826.29	824.48	876.63
2	Building Materials (24)	1067.77	-1.3	10.82	5.81	11.36	22.01	1081.37	1082.91	1082.86	1095.65
3	Contracting, Construction (31)	1303.09	-1.2	9.33	6.19	14.04	30.61	1319.30	1325.48	1324.76	1369.72
4	Electricals (10)	2349.67	-0.3	11.19	5.70	11.38	61.85	2356.25	2359.74	2355.37	2524.85
5	Electronics (25)	1763.65	-0.3	8.88	5.09	14.99	7.81	1768.13	1748.76	1736.59	1861.87
6	Engineering-Aerospace (8)	426.01	-0.4	16.38	5.88	7.34	10.60	427.82	428.45	428.09	470.93
7	Engineering-General (47)	436.88	....	12.81	6.01	9.43	8.43	437.07	436.73	435.89	478.33
8	Metals and Metal Forming (8)	444.58	-0.4	20.10	7.76	6.13	2.31	446.34	447.84	448.93	493.90
9	Motors (13)	324.82	-0.2	12.44	7.48	9.49	9.89	325.42	322.27	321.25	349.52
10	Other Industrial Materials (20)	1477.49	-0.4	9.60	5.50	12.27	31.84	1482.95	1474.88	1468.29	1589.39
21	CONSUMER GROUP (188)	1444.93	-0.3	8.24	3.75	14.96	18.58	1449.34	1441.96	1439.32	1261.42
22	Brewers and Distillers (22)	1792.67	-0.8	8.41	3.66	14.63	21.60	1806.31	1797.16	1795.90	1508.58
25	Food Manufacturing (20)	1158.68	-0.3	9.92	4.24	12.42	18.39	1162.27	1153.26	1150.65	1067.58
26	Food Retailing (16)	2742.16	-0.8	7.96	3.05	16.41	30.32	2763.53	2737.94	2752.11	2427.17
27	Health and Household (21)	3279.21	+0.6	5.86	2.62	19.50	29.05	3259.81	3262.37	3220.17	2564.42
29	Hotels and Leisure (23)	1295.14	-1.2	10.48	5.29	11.25	23.57	1311.27	1311.50	1312.11	1412.89
30	Media (26)	1440.82	-0.2	9.50	4.84	13.42	22.11	1443.33	1440.87	1442.68	0.00
31	Packaging, Paper & Printing (17)	667.93	....	8.11	4.92	15.44	11.81	668.26	658.11	658.59	582.11
34	Stores (33)	898.11	-0.5	8.86	4.07	14.74	12.50	902.90	892.17	897.86	785.14
35	Textiles (10)	533.65	-0.2	10.39	5.86	11.89	9.55	534.96	532.72	536.10	491.98
40	OTHER GROUPS (107)	1221.61	-0.6	9.65	4.98	12.71	11.16	1228.91	1220.05	1213.05	1143.53
41	Business Services (12)	1224.99	-0.6	10.82	5.32	11.35	13.23	1231.97	1220.92	1212.02	0.00
42	Chemicals (21)	1337.81	-0.2	8.54	5.37	13.30	28.71	1340.73	1339.00	1353.46	1247.04
43	Conglomerates (10)	1457.93	-1.9	10.45	7.12	11.55	17.49	1486.39	1486.77	1484.20	1614.88
44	Transport (13)	2199.20	-0.5	11.20	4.73	11.02	26.91	2210.56	2190.93	2196.27	2227.12
45	Electricity (14)	1236.43	-1.0	11.21	5.40	11.17	0.00	1248.74	1212.91	1202.87	0.00
46	Telephone Networks (4)	1458.55	-0.1	9.10	3.42	14.30	0.00	1459.90	1452.45	1432.52	1153.60
47	Water (10)	2455.46	-0.4	13.81	5.71	8.09	39.69	2464.13	2445.95	2448.83	1940.96
48	Miscellaneous (23)	1874.05	-0.6	6.31	4.98	20.29	22.21	1884.75	1872.93	1840.35	1722.00
49	INDUSTRIAL GROUP (481)	1223.99	-0.4	9.31	4.57	13.21	15.77	1229.53	1223.05	1219.17	1142.08
51	Oil & Gas (19)	2345.00	-1.0	10.74	5.68	12.13	50.59	2368.22	2348.53	2324.81	2289.63
59	500 SHARE INDEX (500)	1319.59	-0.5	9.49	4.71	13.06	18.51	1326.46	1318.95	1313.60	1238.08
61	FINANCIAL GROUP (97)	790.90	-1.1	-	6.01	-	18.07	799.97	796.10	795.33	783.75
62	Banks (9)	880.42	-0.8	7.83	6.29	18.51	22.63	887.57	880.13	881.61	822.76
65	Insurance (Life) (7)	1443.81	-1.4	-	5.73	-	41.64	1464.20	1460.85	1461.37	1365.96
66	Insurance (Composite) (6)	663.10	-1.8	-	6.61	-	20.23	675.53	672.41	669.32	661.19
67	Insurance (Brokers) (8)	1075.54	-1.5	7.33	6.25	17.75	21.24	1091.44	1082.36	1076.92	1069.40
68	Merchant Banks (7)	422.58	-0.3	-	4.79	-	4.47	423.91	426.26	426.48	440.55
69	Property (40)	969.06	-1.5	6.81	4.99	19.97	7.90	983.47	982.38	977.31	1092.98
70	Other Financial (20)	284.64	....	9.22	6.35	13.47	4.75	284.52	284.59	285.27	309.67
71	Investment Trusts (70)	1211.21	....	-	3.46	-	15.60	1211.29	1203.50	1198.71	1197.72
99	ALL-SHARE INDEX (667)	1191.99	-0.6	-	4.85	-	18.11	1199.03	1192.35	1188.02	1129.04

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	May 21	May 20	May 17	May 16	May 15	Year ago
FT-SE 100 SHARE INDEX‡	2465.9	-16.8	2492.9	2464.6	2482.7	2466.6	2453.9	2471.9	2459.4	2287.4

FIXED INTEREST

	PRICE INDICES	Wed May 22	Day's change %	Tue May 21	Accrued interest	xd adj. 1991 to date
	British Government					
1	Up to 5 years (28)	121.42	+0.07	121.34	2.12	4.29
2	5-15 years (29)	130.78	+0.10	130.65	2.43	5.15
3	Over 15 years (8)	137.22	+0.08	137.11	2.01	5.02
4	Irredeemables (6)	149.83	+0.31	149.36	0.86	6.11
5	All stocks (70)	130.01	+0.09	129.90	2.30	4.92
	Index-Linked					
6	Up to 5 years (1)	159.10	+0.17	158.84	0.07	2.72
7	Over 5 years (10)	147.31	+0.18	147.05	0.94	1.52
8	All stocks (11)	148.20	+0.18	147.94	0.91	1.56
9	Debs & Loans (56)	109.41	+0.03	109.38	1.99	4.30

	AVERAGE GROSS REDEMPTION YIELDS		Wed May 22	Tue May 21	Year ago (approx.)
	British Government				
1	Low	5 years	9.15	9.14	11.22
2	Coupons	15 years	9.74	9.74	10.95
3	(0%-7¾%)	20 years	9.89	9.90	10.86
4	Medium	5 years	10.32	10.33	12.30
5	Coupons	15 years	10.20	10.21	11.48
6	(8%-10¾%)	20 years	10.12	10.14	11.09
7	High	5 years	10.50	10.51	12.42
8	Coupons	15 years	10.36	10.38	11.74
9	(11%-)	20 years	10.25	10.27	11.34
10	Irredeemables†		10.16	10.19	10.88
	Index-Linked				
11	Inflation rate 5%	Up to 5yrs.	4.08	4.13	5.18
12	Inflation rate 5%	Over 5 yrs.	4.21	4.22	4.14
13	Inflation rate 10%	Up to 5 yrs.	3.15	3.20	4.10
14	Inflation rate 10%	Over 5 yrs.	4.01	4.02	3.96
15	Debs &	5 years	11.88	11.88	14.53
16	Loans	15 years	11.65	11.65	13.50
17		25 years	11.45	11.45	13.07

‡Opening index 2488.1; 9 am 2490.3; 10 am 2482.6; 11 am 2476.1; Noon 2474.2; 1 pm 2470.3; 2 pm 2469.5; 2.30 pm 2469.0; 3 pm 2469.8; 4.10 pm 2466.2; (a) 8.44am (b) 3.50pm † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL. The FT-ACTUARIES SHARE INDICES SERVICE includes details of the information used in the construction of these indices. These are available by subscription from FINSTAT, 071-925 2323. CONSTITUENT CHANGES: Manchester Ship Canal (44) has been deleted and replaced by Sinclair (William) Holdings (48).

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	59	3	22
Corporations, Dominion and Foreign Bonds	5	0	15
Industrials	186	323	1,020
Financial and Properties	118	114	508
Oils	15	24	54
Plantations	0	0	10
Mines	51	18	94
Others	27	53	90
Totals	461	535	1,813

LONDON RECENT ISSUES

EQUITIES

Issue Price	Amount Paid up	Latest Renunc. Date	1991 High	1991 Low	Stock	Closing Price	+or -	Net Div	Times Cov'd	Gross Yield	P/E Ratio
100	F.P.	-	101	100	Aberforth Split Lev Cp	101		..	-	..	-
100	F.P.	-	108	100	Do. Income 10p	106		W9.0	-	11.3	-
-	F.P.	-	207	200	Do. Units 10p	207		-	-	-	-
♦	F.P.	-	185	185	Brockhampton 10p	185		-	-	-	-
♦	F.P.	-	33	33	Do. A Warrants 10p	33		-	-	-	-
♦	F.P.	-	140	140	Do. Non/Vtg. A 10p	140		-	-	-	-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1991 High	1991 Low	Stock	Closing Price £	+or -
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1991 High	1991 Low	Stock	Closing Price p	+or -
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
140	Nil	-	[illegible]	[illegible]	T & N [illegible]	[illegible]	
200	Nil	-	40pm	28pm	Taylor Woodrow	36pm	-1

a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. a Forecast or estimated annualised dividend rate, cover based on previous year's earnings. F Dividend and yield based on prospectus or other official estimates for 1990-91. H Dividend and yield based on prospectus or other official estimates for 1991. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1991-92. N Dividend and yield based on prospectus or other official estimates for 1992. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ‡ Offered to holders of ordinary shares as a "rights". † Introduction. § Placing price. †† Reintroduction. ¶ Unlisted securities market. ♦ Issued in connection with reorganisation, merger or takeover. pm Price at a premium.

TRADITIONAL OPTIONS

- First Dealings May 7
- Last Dealings May 24
- Last Declarations August 8
- For settlement August 19

For rate indications see end of London Share Service

Calls in Aviva Pet., Berisford Intl., Blacks Leis., Budgens, Control Secs., Egerton Trust, Maxwell Comms., Pathfinder, Premier Cons. and Trimoco. Put in Egerton Trust. Puts and calls in Control Secs. and Premier Cons.

LONDON TRADED OPTIONS

Option		CALLS Jul	CALLS Oct	CALLS Jan	PUTS Jul	PUTS Oct	PUTS Jan
Allied Lyons (*557)	500	70	90	98	5	12	17
	550	34	57	67	21	28	33
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
M & S (*252)	240	20	24	34	5	7½	9½
	260	8½	16	23	14	16	18
Sainsbury (*375)	360	29	42	50	7	11	27
	390	11	23	31	21	24	26
Shell Trans. (*506)	500	30	40	50	14	23	27
	550	8	17	28	40	50	52
Storehouse (*101)	100	6	10	13	7½	8½	11
	110	3	6½	8½	15	16	17
Trafalgar (*242)	240	17	27	30	11	17	24
	260	8½	17	22	24	28	35

Option		CALLS Jul	CALLS Oct	CALLS Jan	PUTS Jul	PUTS Oct	PUTS Jan
Utd. Biscuits (*369)	360	24	34	42	8½	14	17
	390	9	18	27	26	30	32
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
(*310)	330	1	6	11	22	34	38

Option		CALLS Jul			PUTS Jul		
STC (*320)	280	-	-	-	¼	-	-
	300	-	-	-	¼	-	-

Option		CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
Abbey Nat. (*276)	260	20	27	35	3	7½	9½
	280	7	15	23	11	17	19
Amstrad (*65)	60	7	11	13	2	4¼	5½
	70	2	6	8	7	10	11
Barclays (*428)	420	24	34	45	8	21	29
	460	5½	16	26	37	45	50

Option		CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
Blue Circle (*245)	240	14	24	30	7	14	17
	260	5	14	20	18	24	28
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

EURO FT-SE INDEX (*2469)

	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CALLS								
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	157	119	86	60	38	22	14	8
Aug	175	138	105	70	55	38	25	16
Dec †	-	215	-	155	-	102	-	65
PUTS								
May	3	5	18	48	95	145	193	245
Jun	14	24	41	67	103	147	195	245
Jul	25	37	55	79	110	153	198	247
Aug	32	45	65	90	120	155	197	245
Dec †	-	80	-	120	-	180	-	255

May 22. Total Contracts 20,344
Calls 10,494 Puts 9,850
FT-SE Index Calls 3,117 Puts 4,083
Euro FT-SE Calls 178 Puts 459
*Underlying security price. † Long dated expiry months.
Premiums shown are based on offer prices.

UK COMPANY NEWS

Bass falls 15% to £209m as recession takes its toll

By Philip Rawstorne

BASS, the brewing, hotels and leisure group, yesterday reported a 15 per cent decline, from £247m to £209m, in interim profits reflecting the impact of the economic downturn on trading conditions in the UK and US.

Mr Ian Prosser, chairman, who had warned of the effects of the recession during the six months to April 13, said that any recovery would probably come too late to have a significant impact on annual profits.

Trading levels had remained below last year's, but he was optimistic that the outcome would compare more favourably with last year's results than the interim figures. Analysts are forecasting pre-tax profits of £520m.

Turnover during the first half fell marginally from £2.26bn to £2.24bn, but operating profits dipped 10 per cent to £266m (£296m).

Earnings per share declined 18 per cent to 42.1p (51.5p). The interim dividend, however, rises to 9.9p (9p).

The recession was felt across all divisions.

Brewing profits fell to £77m (£79m) on turnover of £820m (£798m). Total beer volumes declined by 3 per cent – due partly to the disposal of pubs from the Bass estate. However, free-trade volumes rose 1.5 per cent and the group claimed it had increased its market lead in the take-home trade.

Profits from soft drinks dropped 37.5 per cent to £5m (£8m) on turnover only slightly lower at £205m (£208m).

Pub retailing turnover fell to £627m (£653m) and operating profits to £115m (£128m). Trading conditions were toughest in the south of England and in pub restaurants.

Another 360 pubs were sold for £67m during the half-year bringing total disposals to 540. Under the terms of government orders, the group has to free 2,750 pubs from tied beer supplies, but it intends to invest in new pubs in growth areas such as city centre bars.

The Holiday Inn hotel division recorded a reduced operating profit of £42m (£47m), on turnover down from £285m to £274m. Occupancy rates were down, but by less than those for the industry overall, it claimed.

Mr Prosser said occupancies had shown an encouraging recovery since the end of the Gulf war and that reservations were now ahead of last year.

Leisure turnover – including that of Coral, the bookmaker which is now up for sale – declined from £523m to £512m and operating profits were 17 per cent lower at £24m (£29m).

See Lex

Grampian offers £56.5m for Macarthy

By Clare Pearson

GRAMPIAN HOLDINGS, the Glasgow-based mini-conglomerate, last night launched a £56.6m all-paper hostile takeover offer for Macarthy, the pharmaceuticals group with a recent history scarred by its now-sold wholesaling business.

Grampian is offering eight new convertible cumulative redeemable preference shares at 10p each, plus one ordinary share for every five Macarthy 20p shares.

At Grampian's close yesterday of 185p, up 2p, that valued the shares at 206.6p. Shares in Macarthy jumped 24p to 192p.

Mr Ian Parsons, Macarthy's chief executive, dismissed the offer as "clearly inadequate" and urged shareholders to take no action.

Grampian, which hae diverse interests including sports goods and transport as well as pharmaceuticals, said there would be benefits from integrating its own pharmaceuticals manufacturing and veterinary medicine businesses with Macarthy's.

It attacked as "sub-standard and muddled" the recent track record of Macarthy, which earlier this year had to dip into reserves to maintain its dividend after reporting 1990 pre-tax profits of £4.61m (£6.5m).

It also pointed out that Mr Bill Hughes, Grampian's pharmacist chairman, formerly ran the Drummond chemists chain which Macarthy bought from Guinness in 1987.

Last August Macarthy finally abandoned a battle for market share in the UK pharmaceutical wholesaling market by selling that operation to the Dutch Medicopharma for £15.75m.

Grampian said its terms represented a multiple of 17.8 times Macarthy's historic earnings. The preference share structure would provide a level of income comparable with, but more secure than, that on Macarthy's shares.

Grampian increased pre-tax profits by 8 per cent to £13.1m last year. This is its first offer for a listed company.

Grampian is advised by Morgan Grenfell and Macarthy by Schroders.

RHM cautions after small midterm fall

By Roland Rudd

RANKS HOVIS McDougall, the food and bakeries group, yesterday reported a small fall in interim taxable profits from £76.9m to £76.5m on turnover down by 16 per cent from £914.5m to £766.3m.

However, the group had better news to announce from its cash control policies, which resulted in interest receivable of £3.9m for the half year to March 2, against a charge of £19.9m previously.

Mr Stanley Metcalfe, chairman, said he was pleased that profits had held up well, despite severe competition and recession on both sides of the Atlantic.

But he added: "There are no indications that the difficult trading conditions experienced in the first half, including the property sector, will improve during the second half."

Despite an increase in dollar sales, the US companies reported reduced pre-tax profits of £5.8m (£8.7m). The group blamed a disastrous peanut crop, which doubled prices.

An increase in the costs of advertising Mr Kipling and Cadbury's cakes were behind the fall in Manor Bakeries to £7.4m (£8m).

Grocery products, helped by last year's cost reduction, reported static profits at £17m, despite the strength of sterling.

Milling and bread baking increased profits from £31.2m to £33.3m due to reduced overheads. Food services achieved a rise from £6.6m to £8.9m.

The interim dividend is unchanged at 3.82p on increased earnings per share of 14.9p (14.5p).

● **COMMENT**

Shareholders have two reasons to be disappointed by these results. First, they expected an increase in the dividend: in the event it was held. Investors were not alone in hoping for better dividend news – most analysts had forecast a rise. If that was not enough bad news for one day the group decided to put out a very gloomy profit forecast. The outlook may appear bad, but few chairmen put it in such stark terms as Mr Metcalfe, who said there were no indications that things would pick up in the second half. However, better news should be just round the corner. With most of the businesses reporting increased profits, the group appears to be keeping its powder dry for later in the year. Earnings per share are expected to increase to 29p for the year end, puting the shares on a prospective multiple of 9.8.

Scapa makes £55.6m cash call

By Andrew Bolger

SCAPA GROUP, the Blackburn-based manufacturer of specialist products for the paper and printing industries, is raising £55.6m in a fully underwritten rights issue to reduce borrowings and fund further growth.

The group is issuing 44.89m new shares at 127p on a 1-for-4 basis. Scapa shares closed 8p lower at 150p.

Scapa also reported a 6 per cent decline in pre-tax profits to £42.3m in the year to March 31. Turnover was ahead just 2 per cent to £290.9m.

Mr Bill Goodall, chairman, said the group's main businesses continued to stand up well in a difficult environment.

He said that as forecast, much of the world papermaking activity remained at a high level, and even though profits had declined in the paper industry, the demand for engineered fabrics and engineered roller coverings was at a good level although competition remained strong.

Orders for new paper machines, however, slowed appreciably and initial start-up orders for the group's products were lower than usual.

Mr Goodall said that year-end net borrowings were £62.2m, representing gearing of 40 per cent, a level which had begun to constrain the group from taking advantage of external and internal investment opportunities.

Expansion in engineered fabrics and engineered rolls would continue in Europe, North America and in the Pacific region. A similar policy expansion was being followed in the industrial materials division, where complementary businesses would be acquired.

Earnings per share were 15.7p (16.6p). A final dividend of 3.76p is proposed for a total of 5.26p (5.01p).

Charterhouse likely to bid for BCMB

By David Lascelles, Banking Editor

Charterhouse, the merchant banking arm of the Royal Bank of Scotland, is close to announcing its interest in buying British & Commonwealth Merchant Bank, currently in the hands of the administrators.

Charterhouse is believed to have negotiated exclusive rights to make a due diligence examination of BCMB, the main step towards making an actual purchase. It has indicated that it would be willing to bid about £20m, based on a formula linked to the quality of BCMB's loan book.

BCMB has been in administration since the collapse last year of its parent, British & Commonwealth, and its assets have been frozen.

An earlier attempt by the Cukurova group of Turkey to buy the bank failed after two UK clearing banks with deposits in BCMB would not agree to the purchase terms.

About £100m of stockbroker client money is locked away in BCMB, and many have been unable to recover funds. An acquisition by Charterhouse would increase their chances of obtaining full repayment.

Depositors who had money in their own names have been receiving payments from the Deposit Protection Board which pays out 75 per cent of deposits up to £20,000. The Board, which published its annual report yesterday, expects to pay out £24m to BCMB depositors.

Blacks treads fashionable path to hit £3.5m

By Michiyo Nakamoto

Recession-resistant popularity of fashion footwear supported a substantial rise to £3.5m in taxable profits at Blacks Leisure, the camping goods and sportswear retailer, in the year to March 2.

The rise from £1m was accompanied by moves to raise £4.7m through a 2-for-5 rights issue of 8.3m shares at 62p apiece. The shares rose 4p at 87p.

The sports distribution division put in strong pre-tax profits of £3.59m (£637,000) while the retail division contributed £3.08m (£1.88m). Overall turnover rose to £59.9m (£53.8m).

Gearing has been reduced from 176 per cent to 112 per cent at the year end on net assets of £8.58m.

Part of the proceeds of the rights issue will go towards reducing gearing further to about 60 per cent, after payment of £1.2m to cover part of a deferred consideration.

Earnings per share were up to 12.64p (3.83p) and a final dividend of 2.25p is recommended, making a total of 3.25p (1p).

Taunton Cider managers complete £73m buy-out

By Philip Rawstorne

MANAGEMENT AT Taunton Cider, the UK's second largest cider maker, yesterday completed a £72.5m buy-out from the company's main shareholders, Bass, Courage and Scottish & Newcastle.

Bass later announced that it had received £30.2m for its 41 per cent share in the company. Courage had a similar stake, and S&N is understood to have held about 9 per cent.

The three brewers put the Somerset-based company – which claims a 33 per cent share of the £570m cider market – on sale in February after a review of their investments.

A number of Taunton's previous regional brewery shareholders have retained an investment in the new company.

Mr Peter Adams, Taunton's chief executive who led the buy-out team, said that the deal would give all the company's 450 employees a stake in the business.

"This will give everyone in the company a major incentive in developing a successful long term future for the business," he said.

Directors and employees have taken a 15 per cent stake and institutions are taking 80 per cent.

As well as the employee investment, principal equity funds have been underwritten by Morgan Grenfell Development Capital and banking facilities have been provided by Samuel Montagu.

Taunton, set up by the brewers' consortium in 1969, made estimated pre-tax profits of £10.5m in the year to May 6.

Though number two to Bulmer in the overall cider market, Taunton's Dry Blackthorn vies with Bulmer's Strongbow for brand leadership in draught sales. Taunton occupies third place in take-home sales.

Much of Taunton's recent growth has come from brand innovation.

Its Diamond White and Red Rock ciders, backed by vigorous marketing campaigns, have become strong contenders in both the packaged and draught markets.

HunterPrint cuts loss to £4.7m

By Jane Fuller

HUNTERPRINT Group, the printing combine rescued late last year by a new management team led by Sir Ian MacGregor, cut pre-tax losses from £6.62m to £4.68m in the six months to March 31.

The reduced deficit came on sales down 36 per cent to £23.21m (£36.17m). About £5m of that drop was accounted for by the disposal of loss-making businesses.

At the operating level, losses were cut to £3.41m (£4.16m) and interest costs came down to £1.64m (£1.86m).

There was also a £368,000 exceptional gain (£602,000 charge) as the cost of moving equipment turned out to be less than expected.

Sir Ian, former chairman of British Steel and the National Coal Board, said revenue in the ongoing businesses was down by 25 per cent because of the depressed state of the market, the industry's overcapacity and intense competition. It was estimated that the market was down 25 per cent compared with two years ago.

HunterPrint's revenue had "big holes" in it from October to December, before new management settled in.

Their arrival was accompanied by the issue of 150m shares at 10p each which had raised £13.6m. Nearly half of that had gone to satisfy trade creditors.

The group was now cash positive and should be in profit by the end of the calendar year, Sir Ian said.

Mr David Dalton, managing director of operations, said the Corby factory, which cost £34m to build causing a large chunk of the previous losses, had increased output while operating for five days a week instead of seven. Machine downtime had been halved and the factory was operating at 90 per cent capacity over five days.

Mr Jonathan Stuart, finance director, said debt stood at £10m. Gearing, which was 50 per cent excluding leases (140 per cent with them) after the share issue, had gone up because of the retained loss, but was now declining.

Losses per share were 3.89p (33.85p).

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

	Provisional Price for Trading on 23.05.91	Final Prices for Trading on 29.04.91	
1/2 hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh
0030	16.46	16.18	16.18
0100	16.46	16.18	16.18
0130	16.46	17.08	17.08
0200	16.46	19.26	20.90
0230	16.46	29.74	31.61
0300	16.46	29.74	31.61
0330	16.46	16.24	16.24
0400	16.46	16.85	16.85
0430	16.46	16.32	16.32
0500	16.46	16.28	16.28
0530	16.46	16.18	16.18
0600	16.42	16.18	16.18
0630	16.50	16.28	16.28
0700	16.65	17.10	17.10
0730	16.44	19.98	21.66
0800	20.81	23.83	25.67
0830	21.82	24.04	26.88
0900	22.76	24.27	26.08
0930	31.58	23.95	25.76
1000	31.67	23.83	25.61
1030	28.22	23.74	25.51
1100	28.61	23.73	25.60
1130	32.65	23.95	25.75
1200	32.82	23.98	25.78
1230	32.03	23.87	25.64
1300	30.91	23.66	25.39
1330	21.98	23.42	25.13
1400	21.30	23.40	25.11
1430	21.13	22.72	24.41
1500	21.16	23.39	25.06
1530	29.43	23.39	25.08
1600	29.62	23.42	25.13
1630	29.69	23.58	25.28
1700	29.62	23.59	25.31
1730	29.69	23.65	25.27
1800	29.47	23.41	25.13
1830	20.52	20.12	21.78
1900	19.23	19.94	21.59
1930	19.23	19.94	21.59
2000	18.62	19.82	21.48
2030	18.62	19.84	21.51
2100	18.62	24.50	26.25
2130	20.98	24.50	26.23
2200	20.98	24.50	26.22
2230	20.98	23.87	25.60
2300	18.43	19.14	20.76
2330	18.43	19.00	20.64
2400	18.43	16.18	16.18

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.66/MWh becomes 1.666p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The provisional Pool Purchase Price is subject to revision or correction until final pool prices are determined approximately twenty-four days after the day of trading. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Final pool prices are also capable of revision.

NGC Settlements Limited

UK COMPANY NEWS

All divisions help lift restructured Courtaulds 11%

By Clive Cookson

COURTAULDS, the specialist materials group, raised pre-tax profits by 11 per cent to £186.3m for the year to March 31; but the company set aside £68.7m as an extraordinary item to cover the costs of further restructuring during the coming year.

"The increase in profits has been achieved against a background of deteriorating economic conditions," said Sir Christopher Hogg, chairman. "The manner in which the group'e businesses have coped with these conditions in the first year following the demerger of our textiles operations suggests we have a sound business for the future."

The profits were abont £10m above market expectations – mainly because the group was less affected than expected by adverse currency movements – and the shares rose 6p to 385p.

Cnurtaulds refused to divulge details of the coming year's restructuring plans. "We cannot say anything because we are very sensitive to the commercial implications," Sir Christopher said.

This year'e £68.7m charge follows an extraordinary item of £41.8m last year which related mainly to reducing overcapacity in the acrylic fibres business. Courtaulds' factory in Calais has been closed but the planned sale of its factory in Barcelona to Enichem, the Italian chemicals group, may not go through after all.

Courtaulds is also looking for a buyer for its fine chemicals business which is "highly profitable" and has a turnover of £60m a year but which needs further investment and is not a core business.

Group turnover was flat at £1.9bn but all five business sectors – coatings, performance materials, packaging, chemicals, fibres and films – increased operating profits in 1990-91.

The strongest growth came in marine paints, on the back of a shipbuilding boom in the Far East, and in cellulose fibres (rayon) which are much in demand by the US fashion trade.

Earnings per share rose by 14 per cent to 36.5p (32p) and the final dividend of 8.6p makes a total for the year of 12p (11.1p).

● COMMENT

Courtaulds bas a very firm vision of its future after the textiles demerger as "an international specialty materials company" making chemicals that "protect and decorate" surfaces. It wants also to continue making cellulose films and fibres made from wood pulp. As the continuing restructuring costs show, there are still several operations that do not fit – for example making acrylic fibres, polythene films and cigarette filter tips. Although Sir Christopher Hogg is passing on the chief executive's role to Mr Sipko Huismans, Courtaulds remains an extremely well-managed company and the vision is within reach. Even so, there are sure to be some stumbles on the way. Two strokes of fortune boosted 1990-91 profits: rayon clothes came back into fashion in the US and the dollar suddenly strengthened before the end of the financial year. Unless Courtaulds is lucky again in 1991-92, profits are unlikely to be much higher and the shares, which have performed strongly over the last year, are high enough.

Partnership talks could lead to BA taking direct stake in Sabena

By Paul Betts in London and David Gardner in Brussels

BRITISH AIRWAYS and Sabena are in advanced talks over a new partnership which would see BA invest in a large direct stake in the financially troubled Belgian airline.

Mr Pierre Godfroid, chairman of Sabena, confirmed yesterday that his airline was in partnership negotiations with both BA and Air France, the French national flag carrier. But talks with BA were the most advanced.

Sir Colin Marshall, cbief execntive of BA, also cnnfirmed this week that the two companies were continuing discussions over a new partnership following the collapse last January of the tripartite venture between Sabena, BA and KLM Royal Dutcb Airlines.

Talks between BA and Sabena have been at top level. Unlike the aborted partnership involving KLM, the current negotiations would involve an alliance with only one partner.

Lord King, BA chairman, had also indicated that BA was interested in investing directly in the Sabena parent company rather than taking a stake in a Sabena subsidiary, as was the case with the original BA-KLM-Sabena deal.

Mr Godfroid said yesterday his airline had fixed an end of July deadline to reach a provisional agreement with a partner. He expected the new partner to buy at least a 25 per cent stake in Sabena.

An evantual partnership agreement is part of Sabena'e long term recovery plan, whicb also includes substantial Belgian government financial support. The government owns 52 per cent of the airline.

The European Commission is examining a Belgian government plan to inject BFr35.2bn into Sabena. However, Mr Karel van Miert, the EC transport commissioner, said in an interview he expected the aid to be approved provided "it is clear and unequivocal thet this is Sabena's last chance."

Brussels would insist on two conditions for the Sabena bail-out. The first is that Sabena must make more room for other operators in Belgium. The second is that after negotiating a partnership it can satisfy EC competition authorities that this will not lead to the monopoly of important routes.

Provisions and write-down hit Chesterfield

By Roland Rudd

CHESTERFIELD Properties reported a 5 per cent increase in taxable profits for 1990, despite a £2.26m write down in the value of property held as dealing stock.

However, failure to generate sufficient profits in the UK to offset against advanced corporation tax forced the company to make an exceptional write-off of £3.4m. Earnings per share fell from 34.3p to 10.8p.

Pre-tax profits were £12.78m (£12.12m) nn turnover of £35.3m (£28.61m). The revaluation of the Bridgend shopping centre caused the write down.

Interest charges of £9.76m (£10.03m) excluded development outgoings of £16.28m (£13.38m) before tax relief. Borrowings of £200m, represented 88 per cent of shareholders' funds. Net asset value fell to £225m (£307m).

The value of the investment portfolio fell by 10 per cent to £346.69m. A further £29.5m nf provisions have been made in respect of developments completed since the year end which have therefore not been included in the 1990 valuation.

The final dividend of 11.5p makes 18.5p (17.6p) in total.

WHS sells TV side to consortium for £65m

By Alice Rawsthorn in London and William Dawkins in Paris

BACK IN the early 1980s when WH Smith first ventured into the world of television, cable and satellite broadcasting looked like a exciting new medium with a lucrative future.

Unfortunately for WHS, the progress of the cable and satellite market has been far slower than it expected. WHSTV, its television business, has already absorbed an estimated £80m and is still two years away from break-even.

Yesterday, WHS announced it was calling a halt to its expensive foray into television by selling WHSTV to a consortium of investors – including Canal+, the French TV company; Capital Cities/ABC, the US communications group; and Compagnie Générale des Eaux, the French water company; and the WHSTV management – for £65m.

The consortium has bought a business which includes three cable and satellite channels – Screensport for sports, Lifestyle for women's interest and the Cable Juke Box service – as well as Molinare, the London-based television services group and a 19.5 per cent stake in Yorkshire TV, the independent television company.

Canal+ said its main reason for investing in WHSTV was to broaden its portfolio of theme channels, one of the fastest growing areas of its business.

It is particularly interested in sports broadcasting having invested in the area last summer. Canal+ is also keen to expand into pay-TV outside France partly to compensate for slower growth from its original French service as its domestic market becomes saturated.

The WHSTV theme channels, Screensport and Lifestyle, which are both broadcast across Europe by the Astra satellite, are still loss-making. Screensport is now received in 20m homes and is expected to reach its break-even level of 30m homes in 1992. Lifestyle, which reaches 8m homes, is scheduled to break even within a year providing it reaches 15m homes.

Both Screensport and Lifestyle will need further investment until they break even. Mr Francis Baron, WHSTV's chief executive, said that when the retail recession etruck it became clear that WHS needed to concentrate resources on its core businesses.

Negotiations with the other consortium members – all existing partners of WHSTV – started in January. When the sale is completed WHSTV will turn into a new company, with a new name, armed with new investment for the future.

Carlson to expand UK base by acquiring Smith Travel

By David Churchill, Leisure Industries Correspondent

CARLSON TRAVEL, the privately-owned US gronp based in Minneapolis, is negotiating to buy the retail travel operations of WH Smith. The consideration was not disclosed.

The move is part of Carlson's plans to take a significant stake in the UK travel market. Last year it acquired the AT Mays travel agency chain, the fourth largest, for £15m from the Royal Bank of Scotland.

Smith Travel is the seventh largest travel agency chain in the UK with 60 stand-alone shops and 89 outlets within the Smith retail chain.

The combination of Mays, with 297 outlets, and Smith Travel will still leave Mays in fourth place in the market, behind Lunn Poly, Thomas Cook, and Pickfords Travel.

Carlson, however, is also understood to be negotiating with NFC, the UK transport group, to acquire its Pickfords Travel retail subsidiary. If successful, it would create the largest retail travel group in the UK.

NFC has been anxious for some time to sell off Pickfords because it does not fit in with its core strategy. Apart from Carlson, it is also talking with Wagon-Lits, the French travel group.

WH Smith said yesterday that it had signed heads of agreement for Carlson to buy the stand-alone travel shops. It seems unlikely that it will also want to buy the in-store outlets, which Smith's plan to convert into retail selling space.

Smith's departure from travel retailing had been widely expected, after the problems the industry has faced over the past six months as a result of the recession and Gulf War. Package holiday bookings fell sharply during the first part of the year and even now the market is reported to be at least *10 per cent below last* year's levels.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- Acatos & Hutcheson, Archer (AJ), Dobson Park, Morland, Shaftesbury, Thornton (GW), Warner Estate.

Finals- Airflow Streamlines, Alpine, Berry Birch & Noble, Gerrard & National, Storehouse, Thames Television, Westbury, Whitbread, Yorkshire Water, Young & Co's Brewery.

FUTURE DATES

Interims-	
Aberdeen Trust	June 3
Finals-	
Cater Allen	June 12
Intl Inv Tst Co of Jersey	May 28
Optical & Medical	May 29
Schroder Money Fund	May 24

UK COMPANY NEWS

Cigarette sales fuel 40% first quarter rise at BAT

By Andrew Bolger

BUOYANT SALES of cigarettes helped BAT Industries, the tobacco and financial services conglomerate, increase pre-tax profits by 40 per cent to £223m in the three months to March 31.

However, the underwriting results from Eagle Star, the UK general insurance business, continued to be unsatisfactory, said Sir Patrick Sheehy, chairman.

Turnover rose by 2 per cent to £4.17bn and earnings per share increased by 45 per cent to 7.7p (5.3p).

Sir Patrick said tobacco made an excellent start to the year, with cigarette volume up 5 per cent. Trading profit was 22 per cent higher at £191m. Growth had been particularly marked in the Far East, while further sales were expected from joint ventures, such as one currently being negotiated in Hungary.

He said that while the tobacco results were encouraging, the first quarter traditionally accounted for the smallest proportion of trading profit, so the 22 per cent increase might not be typical of the year as whole.

Trading profit in financial services recovered from £79m to £115m. The life businesses contributed £59m, an 11 per cent increase, and general business more than doubled to £56m.

Many of the difficulties experienced in the UK general insurance market continued into the first quarter. Eagle Star's overall trading loss of £9m was an improvement over the comparable period, but this was principally due to the increased investment return.

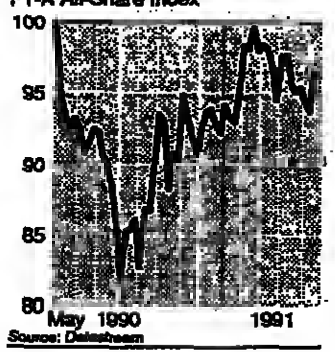
Sir Patrick said underwriting remained unsatisfactory with losses up from £99m to £113m. The UK household and motor accounts in particular suffered from increased claim costs and frequency.

Premium rate increases have been introduced, or were planned, for all lines of business, but it would be some time before Eagle Star's results fully benefited from this action. A further provision of £5m had been made in respect of discontinued lines of financial insurance.

The contribution of Farmer's, the group's California-based insurer, to trading profit increased by 12 per cent in dollar terms to £82m. Higher profit from the management company reflected increased business and greater investment income. More policies in force and slightly better premium levels resulted in higher fee income.

Allied Dunbar, the UK's largest life assurance and unit trust group, contributed £31m to group trading profit, an increase of 16 per cent. Sir Patrick said that while new initial commissions were 8 per cent lower, this performance was a creditable result in difficult economic conditions.

BAT Industries



Source: Datastream

Debt laden Trencherwood incurs £29m loss

By Andrew Taylor

TRENCHERWOOD, the heavily-borrowed residential and commercial property developer which is in breach of its loan agreements, yesterday announced a £29.32m pre-tax loss for the year to October 31. That compared with a profit of £8.72m for the previous 12 months.

The group, which had bank borrowings of £40.5m at the end of October, equivalent to 186 per cent of shareholders' funds, said refinancing negotiations with bankers were in their final stages. It was confident that new facilities would be available shortly.

Mr John Norgate, chairman, said that in light of the results the company would not be paying a final dividend. It had previously cut the interim dividend from 1.5p to 0.5p. The share price fell from 87p to 54p.

Pre-tax losses included an exceptional item of £23.3m, mainly attributable to a £21.4m write-down against commercial and residential properties. A further £1.7m had been set against the failure of three commercial property joint venture partners to meet their financial obligations.

Net asset value per share declined from £1.88 to 87p.

Mr Norgate said the group was reorganising its business to concentrate more heavily on housebuilding, which would in future account for about 75 per cent of group activities, instead of 50 per cent as at present.

Flotation values Man Utd at £47m

By Jane Fuller

THE FOOTBALL season may be over but Manchester United is about to enter a new financial league with a stock market flotation that values it at £46.8m – more than initially expected.

With the polish barely dry on the European Cup Winners Cup, won in Rotterdam last week, the club can boast a likely pre-tax profit of £5.26m for the year to July 31 on sales of £17.5m. The European cup run brought in about £2.5m profit.

It is only the second UK football club to come to the main market. London rival Tottenham Hotspur has had its shares suspended pending refinancing of its heavy debts.

United's fans – and other members of the public – can apply for 56 per cent of the 4.68m shares available at 385p each. The minimum number which can be applied for is 50, which will cost £192.50.

United will receive net proceeds of £16.5m from the flotation, of which £6.7m will go towards the £12m-£18m cost of redeveloping the Stretford End of the Old Trafford ground.

The directors, led by chief executive Mr Martin Edwards who owns 5m shares, will receive a bigger portion as they reduce their total holding to 44.4 per cent. About 2.6m shares are being placed on their behalf and 2.1m new ones being issued to take the total to 12.16m.

Mr Edwards was bullish about business prospects. Admission prices were going up by 30 per cent, there would be more home games, including at least two in European tournaments, and interest income would be collected on the flotation proceeds as well as the £3m that the club already had on deposit.

For fans who read the FT, the dividend forecast for 1991-92 is 17.4p, giving a 6 per cent yield, and the price-earnings ratio is 10.6 on forecast earnings of 36.2p.

Neither of these figures put United in the top league. The yield is more generous than the FT-A All-Share average, which stands at about 4.8 per cent. While the prospective p/e is well below the market and also less than the flagging leisure sector's historic level of 11.4.

Mr Glenn Cooper, managing director at Henry Ansbacher, United's financial advisers, said the "Spurs effect" had probably increased the yield that United had had to offer potential investors and reduced the p/e ratio.

The dividend will cost about £2m, nearly 10 times the most that has been paid out before. It may be only twice covered by 1991-92 after-tax earnings per share from "core" profits, which assume no progress in cup competitions. Next year, core profit should at least equal the £6.1m pre-transfer total forecast for 1990-91.

The plan is to use any extra money earned in cup competitions to build up a reserve fund to buy players. Mr Alex Ferguson, team manager, has spent nearly £6m net on players since 1986 and in 1989-90 some of those costs knocked the club into a pre-tax loss of £3.1m.

Mr Edwards said that as no dividend was being paid this year, about £2m would be put in to launch the transfer fund.

CU to push for increase in non-life premiums

By Clare Pearson

COMMERCIAL UNION, the UK general and life insurer, yesterday reported pre-tax losses for the three months to end-March of £24.2m, down from £25.6m last time.

Mr Tony Brend, chief executive, said the company would be pushing for further increases in rates on non-life business after a continuing deterioration in results, despite the absence of the storms which affected the comparable quarter.

He said non-life business had been particularly difficult in the UK where rates generally remained "substantially below the levels needed to provide an acceptable return".

In addition, that business was affected by higher claims for subsidence, fire and theft and a number of large claims from commercial risks.

Mr Brend said the worldwide life operations had continued to make good progress with underlying growth in premiums of 13 per cent.

Total premium income was broadly static at £1.1bn. In local currency terms life premium income rose by 13 per cent while on the non-life side it was up by 6 per cent.

With investment income amounting to £69m (£64.8m) and underwriting losses up to £120.6m (£117.7m), non-life operating losses amounted to £50.7m (£51.6m). Life profits were £26.5m (£26m).

The small cut in non-life losses reflected the absence of the storm factor. There were also slight improvements in operations in some parts of the world, notably the Netherlands and the US.

A breakdown of operating results from total operations showed the UK increasing losses to £14.4m (£13.9m) while the Netherlands pushed profits ahead to £15.4m (£10.6m). The US moved into a profit of £3.2m (£200,000 loss).

Thanks to gains in stock markets, shareholders funds grew by £123m during the three months to £1.36bn. The operating loss per share worked through at 4.6p (4.7p).

Extra capacity helps Bio-Isolates surge

Strong sales of Bipro, a protein-rich powder, enabled Bio-Isolates (Holdings), the whey protein isolation company, to increase profits from £5,229 to £277,829 in 1990.

Substantially increased capacity following the completion of the new production facility at the Le Sueur plant in Minnesota helped the company to lift sales by 77 per cent to £3.95m (£2.23m).

Earnings per share at the company, which is quoted on the USM, came through at 1.7p (0.32p).

Debt laden Trencherwood incurs £29m loss

By Andrew Taylor

[illegible]

This advertisement contains the terms and conditions of application, a guide to completing the Application Form, and an Application Form. It does not contain any information about Manchester United PLC ("the Company") or its subsidiary, The Manchester United Football Club plc. It should be read in conjunction with the listing particulars dated 22 May 1991 ("the Prospectus") relating to the Company which alone contains full details of the history and business of the Company. In applying for ordinary shares in the Company you will be treated as applying on the basis of the information in the Prospectus and the terms and conditions set out in this advertisement. Expressions defined in the Prospectus have the same meaning in this advertisement.
Before deciding to apply for ordinary shares, you should consider carefully whether shares are a suitable investment for you. Their value and the income from them can go down as well as up.
If you need advice, you should consult a stockbroker, solicitor, accountant, bank manager or other professional adviser.

MANCHESTER UNITED FOOTBALL CLUB

Manchester United PLC

(Incorporated and registered in England under the Companies Act 1985 with registered number 2570509)

Placing and offer for sale by Henry Ansbacher & Co. Limited of 4,675,326 ordinary shares of 10p each at 385p per share, payable in full on application, of which 2,077,922 shares are being placed and 2,597,404 shares are being offered for sale to the public

SHARE CAPITAL

Authorised		Issued and now being issued fully paid
£1,600,000	in ordinary shares of 10p each	£1,216,340

The ordinary shares which are the subject of the placing and offer for sale will rank in full for all dividends and other distributions hereafter declared, paid or made in respect of the ordinary share capital of the Company and *pari passu* in all respects with the ordinary shares of the Company now in issue.

Copies of the Prospectus and Application Form

Copies of the Prospectus and Application Form may be obtained from:
Manchester United PLC, Old Trafford, Manchester M16 0RA
Henry Ansbacher, One Mitre Square, London EC3A 5AN
Smith New Court, 20 Farringdon Road, London EC1M 3NH
Charlton Seal, 76 Cross Street, Manchester M60 2EP
National Westminster Bank PLC, New Issues Department, 153-157 Commercial Road, London E1 2DB
National Westminster Bank PLC, New Issues Department, 2 Princes Street, London EC2P 2BD
and the Company Announcement Office of The Stock Exchange, 46-50 Finsbury Square, London EC2A 1DD (for collection only, during normal business hours for two business days after publication of this notice), from The Stock Exchange Companies Fiche Service and from the following branches of National Westminster Bank PLC:

Belfast	Ulster Bank Limited, 35 Waring Street	Leeds	8 Park Row
Birmingham	103 Colmore Row	Manchester	55 King Street
Bristol	32 Corn Street	Manchester	11 Spring Gardens
Edinburgh	80 George Street	Newcastle upon Tyne	87 Grey Street
Glasgow	14 Blythswood Square		

Terms and conditions of application

The Application List will open at 10.00 am on Friday, 31 May 1991 and will close as soon thereafter as Henry Ansbacher may determine. The basis on which applications have been accepted will be announced as soon as possible after the Application List closes.

It is expected that renounceable letters of acceptance will be posted to successful applicants on Friday, 7 June 1991 and that dealings in the ordinary shares will commence on Monday, 10 June 1991.

1 The contracts resulting from acceptance of applications under the offer for sale ("the "Offer") will be conditional on the whole of the ordinary share capital of the Company, issued and to be issued pursuant to the Offer, being admitted to the Official List by the Council of The Stock Exchange and such admission becoming effective not later than 10 June 1991 [illegible]

[illegible]

Listing and dealing arrangements

Applications must be received by post or by hand at National Westminster Bank PLC, New Issues Department, PO Box 33, 153-157 Commercial Road, London E1 2DB or by hand only at National Westminster Bank PLC, New Issues Department, 2 Princes Street, London EC2P 2BD not later than 10.00 am on Friday, 31 May 1991, or by hand only to National Westminster Bank PLC, 55 King Street, Manchester M60 2DB not later than 3.00 p.m. on Thursday, 30 May 1991. The basis on which applications have been accepted will be announced as soon as possible thereafter. It is expected that temporary documents of title in the form of renounceable letters of acceptance will be posted to successful applicants on Friday, 7 June 1991, and these will become negotiable on Monday, 10 June 1991. It is expected that dealings in the ordinary shares will commence on Monday, 10 June 1991. Dealing prior to receipt of renounceable letters of acceptance will be at the risk of the applicant(s). A person so dealing must recognise the risk that an application may not have been accepted to the extent anticipated or at all.

A successful applicant may sell or otherwise dispose of some or all of the shares in respect of which his application has been accepted by execution of the form of renunciation on his letter of acceptance and delivery of his letter of acceptance to the transferee.

Letters of acceptance will be renounceable until 3.00 pm on Monday, 8 July 1991. In cases of renunciation, renounceable letters of acceptance (duly completed in accordance with the instructions contained therein) must be lodged with National Westminster Bank PLC, New Issues Department, at either of the addresses mentioned above, by 3.00 pm on Monday, 8 July 1991. After that time shares will be transferable only by an instrument of transfer subject to stamp duty. Share certificates will be despatched by National Westminster Bank PLC, PO Box 33, 153-157 Commercial Road, London E1 2DB not later than Monday, 5 August 1991.

Guide to completing the Application Form

① Insert in Box 1 (in figures) the number of ordinary shares for which you are applying. Applications must be for at least the minimum number of 50 ordinary shares and must be applied for in one of the following multiples:
- for not more than 200 shares, in a multiple of 50 shares
- for more than 200 shares, but not more than 1,000 shares, in a multiple of 100 shares
- for more than 1,000 shares, but not more than 5,000 shares, in a multiple of 500 shares
- for more than 5,000 shares, but not more than 10,000 shares, in a multiple of 1,000 shares
- for more than 10,000 shares, in a multiple of 5,000 shares.

② Insert in Box 2 (in figures) the amount of your cheque or banker's draft. The amount of your cheque or banker's draft should be the Offer price of 385p multiplied by the number of shares inserted in Box 1.
For examples:

Number of ordinary shares	Amount you must pay
50	£192.50
100	£385.00
200	£770.00
1,000	£3,850.00
5,000	£19,250.00
10,000	£38,500.00

③ Sign and date the Application Form in Box 3.
The Application Form may be signed by someone else on your behalf and/or on behalf of any joint applicant(s) if duly authorised to do so, but the power(s) of attorney or a duly certified copy thereof must be enclosed for inspection and will be returned in due course. A corporation should sign under the hand of a duly authorised official whose representative capacity must be stated.

④ Insert your full name and address in BLOCK CAPITALS in Box 4.

⑤ You must pin a single cheque or banker's draft to your completed Application Form. Your cheque or banker's draft must be made payable to National Westminster Bank PLC for the amount payable on application inserted in Box 2 and should be crossed "Not Negotiable - Manchester United".
No receipt will be issued for this payment, which must be solely for this application.
Your cheque or banker's draft must be drawn in sterling on an account at a branch (which must be in the United Kingdom, the Channel Islands or the Isle of Man) of a bank which is either a member of the London or Scottish Clearing Houses or which has arranged for its cheques and banker's drafts to be presented for payment through the clearing facilities provided for the members of those Clearing Houses and must bear the appropriate sort code number in the top right hand corner.
Applications may be accompanied by a cheque drawn by someone other than the applicant(s), but any monies to be returned will be sent by crossed cheque in favour of the person(s) named in Boxes 4 and 6 (if any).

⑥ You may apply jointly with other persons.
You must then arrange for the Application Form to be completed by or on behalf of each joint applicant (up to a maximum of three other persons). Their full names and addresses should be inserted in BLOCK CAPITALS in Box 6.

⑦ Box 7 must be signed by or on behalf of each joint applicant (other than the first applicant who should complete Box 4 and sign Box 3). If anyone is signing on behalf of any joint applicant(s), the power(s) of attorney or a duly certified copy thereof must be enclosed for inspection.

Instruction for return of your Application Form

Applications must be received by 10.00 am on Friday, 31 May 1991

Send your completed Application Form together with the cheque or banker's draft by post, or deliver it by hand, to National Westminster Bank PLC, New Issues Department, PO Box 33, 153-157 Commercial Road, London E1 2DB or by hand only to National Westminster Bank PLC, New Issues Department, 2 Princes Street, London EC2P 2DB so as to be received no later than 10.00 am on Friday, 31 May 1991, or by hand only to National Westminster Bank PLC, 55 King Street, Manchester M60 2DB so as to be received no later than 3.00 pm on Thursday, 30 May 1991.

Use first class post and allow at least two business days for delivery.
Photostat copies of the Application Form will not be accepted.

Application Form

Offer for sale by Henry Ansbacher & Co. Limited of 2,597,404 fully paid ordinary shares of 10p each in Manchester United PLC at 385p per share, payable in full on application. Before making any application to acquire shares you are recommended to consult an independent financial adviser authorised under the Financial Services Act 1986.

You may only apply for shares in the proportions stated in Note 1 of the accompanying guide.

① I/we offer to purchase [ ] fully paid ordinary shares of 10p each in Manchester United PLC (or any smaller number of shares for which this application is accepted) at 385p per share on the terms and subject to the conditions set out herein and to the Prospectus dated 22 May 1991 and subject to the Memorandum and Articles of Association of Manchester United PLC.

For which the amount payable is:

② £

③ Signature — Dated — 1991

Please use BLOCK CAPITALS

④ Mr, Mrs, Miss or title — Forename(s) (in full)
Surname
Address (in full)
Postcode

⑤ → ☐ Pin here your cheque, banker's draft, made payable to "National Westminster Bank" and crossed "Not Negotiable – Manchester United" for the amount in Box 2.

FOR OFFICIAL USE ONLY
1 Acceptance number
2 Shares allocated
3 Amount received £
4 Amount payable £
5 Amount returned £
6 Cheque number

Fill in section 6 only when the application is being made jointly or on behalf of more than one person. The first or sole applicant should complete Box 4 and sign in Box 3. Insert in Box 6 the names and addresses of the second and subsequent applicants (up to a maximum of three additional applicants), each of whose signatures is required in Box 7.
Please use BLOCK CAPITALS

⑥

Mr, Mrs, Miss or title Forename(s)	Mr, Mrs, Miss or title Forename(s)	Mr, Mrs, Miss or title Forename(s)
Surname	Surname	Surname
Address (in full)	Address (in full)	Address (in full)
Postcode	Postcode	Postcode

⑦

Signature	Signature	Signature

You must send this completed Application Form together with the cheque or banker's draft by post, or deliver it by hand, to National Westminster Bank PLC, New Issues Department, PO Box 33, 153-157 Commercial Road, London E1 2DB or by hand only to National Westminster Bank PLC, New Issues Department, 2 Princes Street, London EC2P 2DB so as to arrive not later than 10.00 am on Friday, 31 May 1991, or by hand only to National Westminster Bank PLC, 55 King Street, Manchester M60 2DB so as to arrive not later than 3.00 pm on Thursday, 30 May 1991. Any person signing this Application Form under a power of attorney must enclose the original power of attorney (or a duly certified copy thereof).

UK COMPANY NEWS

Return to financial health proving a difficult uphill climb

David Barchard and **Michiyo Nakamoto** on the flagging fortunes of Sansui, the Japanese electronics subsidiary of Polly Peck

WHEN POLLY Peck International announced in October 1989 that it was buying Sansui, the Japanese electronics group, the move seemed like a brilliant coup.

But when creditors of the collapsed fruit and electronics group meet at Alexandra Palace tomorrow, few tasks are likely to be harder than evaluating the future worth of its Japanese subsidiary.

Polly Peck owns 72 per cent of Sansui's sbares on the Tokyo stock exchange, where they have been languishing at around Y620, far below the Y1,270 they touched after the takeover.

But under Polly Peck's ownership its fortunes have continued to flag. Four years of losses were reported, included an operating loss of Y4.8bn on sales of Y221bn in the year to October 1989, tbe last year for which full year results have been published. In tbe nine months to last December Sansui reported s ioss of Y1.7bn on sales of Y16.3bn. after e change in its year-end and e reconstitution of the company which consolidated some subsidaries.

To staunch its losses, Sansui's management has tried various remedies. They have cut costs in Japan, sold real estate and shifted production to Taiwan. They have been diversifying into new bnsinesses such as car audio and musical equipment.

At tbe same time, Sansui has changed its profile. Last year it began producing video recorders and Mr Koichi Enomoto, business general manager in Tokyo, is hopeful that sales in 1991 will gross Y10bn this year, rising to Y15bn in 1992.

"We are diversifying our product line in Japan from hi-fi equipment, whicb we bave always been in, to general eudio, portable players, telephone sets, and TV and computer displays," says Mr Enomoto.

For the 12 months to December this year the group is forecasting profits of Y800m on turnover of Y35bn.

The return to financial health is proving a difficult uphill climb for the company, whicb once enjoyed international acclaim for its high quality eudio equipment.

Set up in the late 1940s by Mr Kosaku Kikuchi, Sansui's early years as an electronics and audin producer gave it an internationally-known brand name and a string of small subsidiaries across the world.

Norbert Wirsching: declined to comment on his resigation

The four-year run of losses meant that without an ontside rescuer, Sansui faced an increasingly bleak future with the patience of its banks steadily wearing thinner.

Its problems had several different roots, some going back many years. One was that Sansui had been hard hit by the appreciation of the Yen against the US dollar after 1983, pushing up the price of its goods in US and European markets.

"We faced lost sales and shrinking markets," sxplains Mr Enomoto. Other factors involved in Sansui's problems included a legacy of difficulties with left wing unions from the 1970s and a delay in shifting production overseas when its rivals were doing so.

The deficit was financed by five Japanese banks, led by the Bank of Tokyo. By the time Polly Peck arrived nn the scene, the deficit had reached Y20bn, while total borrowing for the group was about Y35bn.

By 1989, after four years of losses, a purchase by a foreign company was viewed both by Sansui and its creditors as virtually the last hope for the group.

Then Polly Peck Internetional emerged from a number of possihle foreign bnyers. Negotiations were conducted by Mr Norbert Wirsching, the Polly Peck director responsible for electronics.

The tie-up with Capetronic and Polly Peck promised both a stream of dividend payments to help pay off the group's dehts, and a link with an aggressively managed international electronics group.

The takeover was announced in October 1989 after talks lasting nearly seven months. The deal was the first foreign takeover of a Japanese company and was announced by a triumphant Mr Nadir to a press conference of 200 journalists. The Ministry of International Trade and Industry and the Ministry of Finance both issued welcome messages.

Polly Peck aimed to link Sansui to its existing electronics operation, Capetronic, in Taiwan. An initial Y15.6bn, the amount paid by Polly Peck, was injected into Sansui and a shake-up of its upper management began.

Eleven new directors from Polly Peck were appointed to the Sansui board, headed by Mr Wirsching. The most important change of all until July 1990, when Capetronic formally became a Sansui subsidiary with Polly Peck's stake rising from 51 per cent to 72 per cent.

Today – after Capetronics, PPI's older electronics business in the Far East and Imperial in Milan have been merged into it – the group has 6,000 employees with two plants in Japan, three in Taiwan, one in Hongkong, one in Malaysia, one in the US, and an Italian subsidiary, Imperial, based in Milan.

Japanese specialist audio makers were forced in the 1980s to come to terms with the difficulty of surviving as specialist makers. Most have long since joined larger groups.

Having been one of the few specialist audio makers that remained independent and specialist, Sansui is having to enter the race to compete as a diversified audio-visual company in areas, such as VCRs and laser discs, where its competitors have a substantial lead.

Mr Enomnto believes the Polly Peck deal can benefit it through the complementary strengths of Vestel and Sansui for example. Vestel made small TV screens to supply to Imperial, Sansui's Italian offshoot, while Imperial can supply large screens to Vestel. He believes that the linkage stimnlated increased production for both companies.

Europe appears to be a main target in its strategy for survival in this field. The company announced that it is planning to increase VCR output fourfold, for sale mainly to eastern Europe.

The view among electronics analysts is that while the market is highly competitive there is considerable area for growth in the European VCR market.

While prospects look better than they have for some time, Sansui's bid for survival depends to largely on keeping the overall formula intact.

On May 10 Mr Norbert Wirsching, resigned from the Polly Peck board of which he had been a member since October 1989.

Contacted in New York this week he declined to comment on his resignation. He appears to have been the driving force behind the growth of Capetronic and the link up with Sansui. His departure adds to the uncertainties surrounding the future of the group.

In Tokyo, there is considerable scepticism about the Administrator's plans for a refloat of the group. The whisper there is that the search is once again on for a buyer.

NEWS DIGEST

Baggeridge Brick dips to £1.07m

BAGGERIDGE Brick reported a slump in pre-tax profit from £2.58m to £1.07m in the half year ended March 31 1991. The interim dividend is maintained at 0.75p.

The group was hit by the recession in the construction industry and also by the seasonal closure of construction sites at Christmas being aggravated by adverse weather in the following two months.

Turnover fell from £15.92m to £13.26m. Sales volume was only 7 per cent behind while market share continued to improve. However, price competition and reduced demand meant that operating profit from brickmaking fell 23 per cent to £1.7m.

Lower profits of £193,000 (£1.03m) in landsource were expected as there was an exceptional receipt last time.

Directors were "in no doubt" that the second half would be arduous. Unless production nationally was brought into line with sales volume there would be continuing downward pressure on prices. Earnings per share for the period were 1.79p (4.25p).

Further downturn at Chamberlin & Hill

Further downturn in trading conditions at Chamberlin & Hill resulted in a 32 per cent fall in taxable profits, from £2.36m to £1.59m in the year to March 31 1991.

Sales were down 5 per cent to £19.47m (£20.57m).

Directors said the decline was felt most by the two businesses involved in conduit fittings and supplying components to the electrical installations markets. A cost rednction programme had been undertaken based on moving both businesses to one site. Costs of tbe reorganisation, amounting to £100,000 had been taken against taxable profits.

The final dividend is 4p for an unchanged total of 5.75p, on earnings per share of 16.64p (23.41p).

The new financial year had started with a lower level of activity than in the comparable period.

Ferry Pickering edges higher

Taxable profits of Ferry Pickering, the carton manufacturer and printer, edged ahead from £1.16m to £1.2m for the half year to February 28. Turnover expanded by £1.22m to £15.12m.

Earnings worked through at 6.1p (6.07p) after tax of £385,000 (£347,000). As predicted, the tax charge rose to 32 (29.9) per cent. The interim dividend is a same-again 2.1p.

Administrators for Westerly Yachts

Westerly, the West Midlands-based boat builder and shoe manufacturer which last week announced that it was closing down yacht production at its Westerly Yachts subsidiary, said yesterday that bankers had demanded an immediate repayment of the offshoot's overdraft amounting to some £2.3m.

In the circumstances, directors requested its bankers to appoint administrative receivers to Westerly Yachts. For 1990 Westerly Yachts had turnover of £12.1m but incurred trading losses of £364,000 on capital employed of £4.26m.

Directors of Westerly said the remaining businesses within the group were trading satisfactorily. They added that they were in discussions with the group's bankers with a view to securing support for the financing of the remaining subsidiaries nn an ongoing basis.

Whessoe rises 14% to £3m

Whessoe, the project management, engineering services and instrumentation and control group, returned profits of £3.09m pre-tax for the half year ended March 30.

The 14 per cent improvement over last time's £2.71m was struck on the back of a 12 per cent rise in turnover tn £25.21m.

Mr George Duncan, chairman, said that the increase in profits was achieved in the face of difficult trading conditions in the UK and abroad. He added that there was currently "little evidence" of any improvement in the economic environment.

The interim dividend is stepped up to 2p (1.75p) from earnings of 10.9p (9.6p).

Printech moving to main market

Printech International, a Dublin-based computer documentation company, is moving from the Unlisted Securities Market to the main market. Dealings should start in Dublin on Monday May 27 and in London on the following day.

The company joined the USM in December 1987 and in 1990 reported pre-tax profits of I£3.27m (£2.98m) on turnover of I£19.27m. Directors said that they expected a satisfactory outcome in the present year in the absence of unforeseen circumstances.

Dunedin Worldwide asset value rises

Dunedin Worldwide Investment Trust reported a rise to 576.9p in net asset value per share at April 30 1991, compared with 568.7p at the end of the previous first half and 467.4p at the end of the year to October 30.

The interim dividend is unchanged at 2.4p on earnings per share of 4.17p (4.3p). Directors said the final dividend would be maintained st 6.6p.

Minstergate jumps to £1.32m

Interest received of £1.42m against £927,000 allnwed restructured Minstergate to announce a jump from £543,000 to £1.32m in pre-tax profits for the six months to February 28.

The company's main activities now comprise property management and development, together with one manufacturing subsidiary. Turnover fell from £13.45m to £1.39m, reflecting the effect of the disposals in manufacturing together with insignificant property development sales.

Losses on trading activities were cut from £433,000 to £172,000 due to the sale of loss-making subsidiaries. Several offers are being considered in the property development subsidiaries.

Earnings per share improved from 8.86p to 36.43p.

Archimedes Inv net assets ahead

Archimedes Investment Trust reported an increase to 577.03p in net asset value per capital share at end-April 1991, compared with 523.19p a year earlier.

Net revenue for the six months to April 30 increased by 25 per cent to £149,000 (£118,000) for earnings per income share of 12.16p (9.67p). A first interim dividend of 9p (7.25p) is declared.

TECHNOLOGY

Charles Batchelor continues a series on innovation in the recession by examining the factors which influence R&D spending among small companies

A restructure of priorities

Paul de la Pena, a Midlands-based blender of industrial lubricants, has recently been adding to its range of oils and filtration equipment. The cost of developing these products in-house would be prohibitive for a small company – Pena has turnover of £3.5m and a workforce of 50 – so these extra items have been sourced from other manufacturers.

"We are buying in equipment that other people have researched to relieve ourselves of the burden," explains Paul de la Pena, chairman of the Pershore, Worcestershire company. "R&D is very unattractive in the UK."

At first sight Pena's experience appears to confirm suspicions that companies of all sizes, hut particularly small ones, are cutting back innovation spending in the face of the recession. One of the findings of the recent CBI/NatWest Innovation Trends survey was that fewer companies employing between 50 and 199 people expectad R&D spending to increase during 1991 compared with 1990.

But the picture is more complex than this, as the experience of Pena and similar companies ahows. Innovation spending responds to the economic cycles of individual companies *which may not mirror* broader economic trends. It also takes account of other management policies towards areas such as marketing and exporting.

Innovation policy at Pena, for example, is strongly influenced by an expensive programme the company is undertaking jointly with Iritech, an Italian investment group. The two partners are developing a sensor which indicates the degree of fouling of oils within minutes instead of the 24 to 48 hours nsually required. Tha venture will absorh most of Pena's innovation budget for some time to come.

At the same time Paul de la Pena describes the decision to broaden his company's own range of products with oils and equipment supplied by other manufacturers as a move to a more marketing-oriented policy. In recent months Pena has come to regard itself as the provider of a complete lubrication management service to *manufacturers instead of simply* as a supplier of oils.

Paul da la Pena says he regrets this shift in emphasis away from product research but the move appears to have done nothing but good for the company's profits. "We are trading quite well," he notes.

EXPENDITURE IN THE MANUFACTURING SECTOR

What has been the trend over the past 12 months (expected trends for the next 12 months) in current expenditure in the following areas?	Past 12 months (Next 12 months) UP	DOWN	SAME	N/A
R & D (products)	47 (40)	12 (8)	26 (38)	15 (14)
R & D (processes)	33 (32)	10 (8)	36 (40)	21 (20)
Licensing of other inventions	3 (7)	1 (2)	30 (28)	65 (64)
Services of consultants	34 (10)	18 (29)	40 (49)	13 (12)
Joint ventures or collaboration with UK companies	8 (19)	2 (2)	31 (21)	59 (58)
Joint ventures or collaboration with overseas companies	19 (40)	1 (1)	34 (20)	46 (39)

Source: CBI Innovation Trends

Although Paul de la Pena may be gloomy about prospects for R&D in the UK, smaller firms generally have remained remarkably positive abont innovation spending, according to the CBI/NatWest survey.

Fewer manufacturing companies (employing 50-199 people) expect to increase R&D product spending next year but in both 1990 and 1991 companies increasing spending in this area ontnumber those reducing expenditure. Some 44 per cent of companies surveyed expected total innovation spending to rise this year compared with 20 per cent which expect a fall. In 1990 42 per cent increased spending.

Within this overall spend, the outlay on licensing other companies' inventions and on joint ventures or collaboration with UK and overseas partners will rise quite sharply. Like Pena companies are learning to spread the innovation burden.

Further evidence that overall levels of innovation spending are not being cut comes from organisations such as Inventalink, of London, which matches inventors to companies seeking new products. Interest in new products on the part of companies both large and small is higher now than it

was a year ago, reports Richard Paine, chairman. "Companies are looking for products to come out of the recassion with," he adds.

Many companies appear to be taking a long-term view, protecting their innovation spend while cutting hack in other areas. Shelbourne Reynolds, a Bury St Edmunds-based agricultural angineering company, has reduced overbead spending hy £200,000 after a thorough review, according to Keith Shelbourne, chairman and managing director. Shelbourne employs 100 people and expects sales of £4m this year.

A switch to exports and away from the depressed UK market meant the company was able to rednce its UK sales force from three to two; insurance cover was reviewed and reduced; and a reorganisation of the factory lay-ont allowed parts of the building to be let.

"If anything our commitment to R&D is greater today," says Keith Shelbourne. The bulk of the company's innovation budget is currently allocated to developing a grain stripper which speeds up the harvesting process. Worldwide demand for the stripper has taken off and for the first time in its 19-year history the company is on 24-hour working. But getting this far nearly pushed the company under.

Development costs of the stripper were four times higher than expected; four years ago Shelbourne made its first-ever loss; and Keith Shelbourne was forced to sell off a 30 per cent stake in the company to avoid going into liquidation. "We acted three years ago and that is paying off today."

Innovation spending is now going into refining the basic design of the stripper to make it more reliable and into making engineering changes so that it can be made more easily in volume. Improving on existing prodncts rather than launching off into new directions is a tactic which is being adopted by smaller companies.

Loctronic Graders, an Essex-based manufacturer of equipment for sorting potatoes, is concentrating on changes to double the speed of its equipment. "The research work we are doing was initiated two to three years ago," says Mick Cowlin, chairman of the £1.25m turnover company. "We have to work this through before we think about something else."

Part of the funding for this project is being provided by the government under its Link collahorative research initiative. Loctronic has teamed up with the *Silsoe Research Institute* in Bedfordshire on a two-year project valued at £360,000.

Like many small companies Loctronic has been forced to adapt its innovation policies to changes in government support programmes. Link funds are intended to go to strategic research into technologies for future commercial products and not for highly specific product-oriented projects.

This move away from near-market finance and the longer-term nature of projects means small companies must take a deep breath when embarking on government-funded research, says Cowlin. For a company which has made extensive use of government finance – £1m over the past 10 years – changes in govarnment innovation policies can have a considerable impact.

As Pena, Sbelbourne and Loctronic illustrate, innovation is a complex issue for the smaller company. Government policy, changing management priorities and a company's own business cycle can all influence spending at least as much as external economic factors.

The final article in the series, on the agenda for innovation policy in the UK, will appear next week.

Fresh flow of ideas to fuel the 'think tank'

Andrew Fisher visits BMW Technik, which seeks to stimulate creativity in automobile design

BMW's Z1 sports car is sleek, luxurioue – and expensive. In Germany, it costs DM89,000 (£30,000) and the Munich company only expected to produce around 5,000. Since the car's introduction late in 1988, however, nearly 8,000 have been made. Flaming red is the most popular colour – and the most appropriate for a car of such flamboyant glamour.

Soon, BMW will stop making the car. The market, after all, is extremely limited compared with that for its basic models. But for BMW the significance of the Z1 goes far beyond the life of the car itself.

For the Z1 did not come roaring out of the company's normal research and development activities. It emerged from a separate unit formed with the sole purpose of giving people time to think, work, and create without the normal constraints associated with turning out a production model.

This subsidiary is called BMW Technik GmbH and it was founded in 1985 as an experiment. BMW reckons it is nnique, though other companies have their own design studios. Its staff of 120 people is far emaller than BMW's hig research and development department, which has 5,000 employees. "We act as a think tank that produces hardware," says Klaus Faust, the head of BMW Tecbnik, which operates from its own building near BMW's headqnarters.

Nobody stays at the company for more than five years, the idea being to maintain a fresh creative atmosphere. Most of tbe designers, engineers, and other staff come from within the group, hut BMW Technik also takes on experts from outside when necessary; its present ranks include people from Austria, the UK, Denmark, the Netherlands, and the US.

How did the Z1 come about? It did not just evolve by accident, says Faust. "We wanted a successful project to motivate our employees. Building a car was the best way to do this. So we tried to develop a fun car that contained new technology."

The result was a vehicle with a body of light, resilient, and recyclable thermoplastic, developed by General Electric of the US; plastic is not cheaper than metal but it is easier to shape, *especially into sporty curves. The Z1's doors* are electronically powered to move up and down rather than swing out, and its advanced rear axle system is now used on the latest generation of its small 3-series model.

It took one-and-a-half years from tha first designs on paper to production of the first Z1 prototype. Today, Faust says, BMW Technik can come up with a complete concept car in a year.

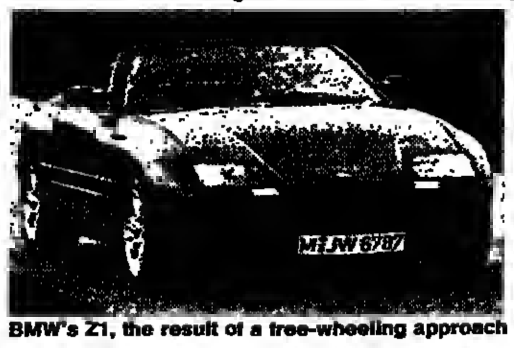
There was also an off-road design of the Z1, but this was not put into production.

The success of the Z1 meant that BMW Technik became more than just an experiment. Today, it is working on a variety of projects. It tends to have two big projects going at once – which involve whole vehicles – and about 10 smaller ones.

Faust is cagey about giving too much away on its present work. One idea is to come up with a method of darkening car window panes hy electronic controls. "Our work can cover any aspect of the car, whether it is air-conditioning, the engine or the body."

BMW Technik carries out external work, tco. It has made studies for German Federal Railways on new carriages – these were not implemented – and tried to develop a futuristic design for the humble motor-scooter. Although the company was set up so people could develop their ideas in a free-wheeling, informal environment, it has a formal structure to ensure that projects do not simply lead to dead ends.

Eight divisions cover design, bodywork, propulsion, the engine, aerodynamics, materials, electronics and the company'e workshop. These are subject to financial *and project co-ordination* controls.



BMW's Z1, the result of a free-wheeling approach

Explaining BMW Technik's risk-oriented approach, Faust says: "Our aim is that roughly a third of our project ideas should be followed np further and end up in the car in some way; a third should at least provide research impulses; and a third can be dropped as being too risky."

To help stimulate the right climate, BMW Technik has flexible working arrangements allowing ataff some freedom to choose their own working hours. Thus employees can work at weekends and take a weekday or two off, depending on the urgency of the project on which they are working.

There is an overall 40-hour week, but no overtime. People tend to work longer hours anyway, notes Faust, since they become bound up in their projects. There is the additional spur of special payments for successful projects.

The rotation at the company means that around 20 people come and go each year. The idea is to avoid hierarchy and creative staleness. Time at BMW Technik also helps in people's *later careers, adds Faust, since it is recognised* in the rest of BMW and elsewhere that the unit's purpose is to unlock creative energies and develop an individualistic approach.

It can be fun, too. At a recent staff party the company's advanced wind tunnel – equipped for both aerodynamic and acoustic testing – was used to see which employee had the best windsurfing position.

COMMODITIES AND AGRICULTURE

MacSharry digs in heels as farm ministers try again

By David Gardner in Brussels

EUROPEAN COMMUNITY agriculture ministers last night began work on a new attempt to agree on this year's farm prices, after Mr Ray MacSharry, EC agriculture commissioner, said Brussels was prepared to make no further concessions on its proposals.

Following a sterile debate on the modified proposals – which had been brokered by the Luxembourg presidency of the EC and embodied shifts from the commission proposals of three months ago – Mr MacSharry said he doubted "whether (ministers) wanted to, or were capable of making a decision."

He told ministers: "You can sit here till Doomsday, but the commission is not going to move."

The Irish commissioner's *demarche* followed renewed attempts by France and Ireland to force an increase in the binding guideline on farm spending, set this year at Ecu32.5bn ($38.8bn).

However, officials said he appeared more provoked by the negative reaction to concessions the Commission has made on the cereals, beef and milk regimes, the three areas where EC supply most clearly exceeds demands.

The Luxembourg compromise on this year's prices – backed by the Commission – suggested that:

● on cereals: farmers involved in existing five-year set-aside schemes would get the benefit of this year's special plan to take 15 per cent of land out of production, in order to avoid paying the doubled production tax, of 6 per cent, proposed by Brussels. This met UK and French objections.

● on milk: though the 2 per cent cut in the quota would stand, member states could buy up milk, and thereby restore part of the cuts, and would be reimbursed at a rate of Ecu7 per 100 kilos per year – to start from the EC's 1993 farm budget and stretch over five years. This met the demands of several milk producers.

● on pigmeat: a partial restoration of private storage aid for pork, suspended earlier this year – in response to Danish requests.

● on beef: the Commission would be empowered to manage with greater discretion the now open-ended intervention system. This was an attempt to pacify the Irish, over two thirds of whose beef goes straight into intervention because of depressed markets.

As ministers went into late night session, it nevertheless seemed a better than even bet – 6-4 according to John Gummer, the UK agriculture minister – that some sort of deal would be agreed.

The Council hopes to reach accord on the big-spending areas – cereals, beef and milk – with the intention of then adding them up and seeing how they sqnare with tha spending guideline.

There was a widespread assumption that a way would then be found to fine tune the budget to keep it inside the formal limit.

Senior Commission officials say privately that a small amount of budgetary overrun – amounting to barsly a week's apending – could be pushed into next year's budget.

A senior French official was equally sanguine. "Technical adjustments will take care of it," he said.

This sort of dexterity is already evident in the proposal to manipulate spending on milk.

Mr Gummer, who along with his Dutch colleague has backed the Commission's attempts to hold the guideline, said of the plan to bump forward part of the milk bill that there was "imprudence in making decisions now which have to be paid for later; but we can't complain. It is not outside the guideline".

Spanish officials also saw a good chance of freezing the budget issue, if not the budget.

They foresaw e political agreement late tonight which would leave a number of "loose ends" to be tied up later this year.

Drivers act over deaths at Chilean copper mine

By Leslie Crawford in Santiago

TRUCK DRIVERS at Chuquicamata, the world'e biggest open pit copper mine in northern Chile, are staging a go-slow to protest against the dangerous working conditions that caused the deaths of seven miners this year.

The go-slow is causing chaos in an operation that has to remove 600,000 tonnes of rock a day and where traffic is computer-controlled to avoid a delay of even a couple of minutes. Mr Federico Gana, Chuquicamata's public relations manager, said extraction over the past week had fallen to 540,000 tonnes a day but it was too soon to tell the effects on production.

The drivers, who operate the giant earth-removing trucks, are upset about management'o allegation that the pit accidents were caused by their own negligence. Mr Luis Vergara, a union leader at the mine, says that drivers had been urged to work faster to comply with Chuquicamata's production goals. "It is unfair to blame the drivers for the accidents when they were merely obeying orders," he said.

The labour protest coincides with the start of pay negotiations. Chnquicamata's 8,500 miners last week lodged a claim for a 9.95 per cent real increase in wages for the next two years. The Chilean state corporation corporation Codelco, which owns Chnquicamata, has until the end of May to study the claim and negotiations are expected to begin in June. Pay talks at Codelco's three other mining divisions, Andina, Salvador and El Teniente, will follow soon after.

Meanwhile, Codelco is stepping up prospecting in the hope of finding new deposits to arrest declining production at its ageing mines. Geologists this week announced the discovery of a huge deposit 5km south west of Chuquicamata. Initial projections show the deposit could rival Chuquicamata or the La Escondida copper mine in size.

Peru moves to revive cotton trade

Sally Bowen finds hopes pinned on the coveted Tanguis variety

PERUVIAN COTTON, once the country'a principal export, is undergoing ita biggest ahake-up for years. March trade liberalisation measures and the lifting of export restrictions mean that Tanguis, an internationally coveted variety which until now has been virtually unavailabla ontside Peru, will be widely exported.

Production, however, is in crisis. A combination of last year's drought, increased terrorist attacks on coastal farms and scarcity of credit means that only 68,000 hectares of Tanguis were planted in Peru this season compared to a "historical" 120,000 ha.

Although this is double the acreage the Peruvian Cotton Board had predicted for this season, production has been maintained at the expense of good agricultural practice. Nearly a quarter of the total area was not cleared and replanted at the and of last season – plants were cut back and allowed to sprout again, with savings on costs but potential difficulties with disease. First indications, however, are that the harvest has suffered little, say traders.

The Cotton Board estimates Tanguis output this year of about 50,000 tonnes, nearly 40 per cent lower than three years ago. Tanguis accounts for 60 per cent of cotton grown in Peru – the rest is mostly long-staple Pima – and is the variety principally used by Peruvian cotton garment manufacturers. It has a bulk and absorbency which make it ideal for underwear and sports shirts, the products on which Peru's booming cotton apparel export business is based.

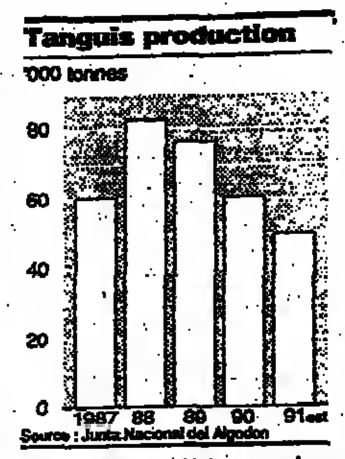
Until government-imposed export restrictions were lifted in March, the local market had first claim on Tanguis. Only small quantities surplus to domestic demand, perhaps 7,000 tonnes a year, were exported under special licence.

However, this year, with the domestic market in recession, traders expect at least half of the season'a Tanguis 50,000 tonne crop will go abroad. Leading private exporters will compete for the 40 to 50 per cent market share traditionally held by Enci, the increasingly weakened state food and commodity marketing board.

Tanguis is likely to sell in Europe this year at about $100 per quintal, according to last year's leading exporter Coral S.A. However, local Peruvian costs to cover transport, customs and re-pressing of bales before shipment, are high.

Cotton exporters receive no tax drawback and bear an additional 5 per cent "temporary" tax on every tonne exported. "Current local costs are abnormal," says Coral's managing director Gonzalo Priale. "A fair price to the Tanguis producer would be around $70 per quintal, if the exchange rate was not so far out of line."

Producers say they can no longer make money growing cotton. Federico Leon, president of the Peruvian Cotton Board, and himself a grower has 142 hectares in Piura, the principal cotton-growing region on Peru's north coast. "It's a viable size – you should be able to make money off that," he says.



It is no longer possible. The Cotton Board estimates production costs at $1,400 per hectare, including pesticides, machinery hire and transport. However, in areas such as Federico Leon's, where traditional yields average only ten to twelve quintals per hectare, cotton farming is unprofitable.

This year, "like all other medium-sized farmers in my area, I haven't grown cotton", says Leon. Fifteen hectares are planted "to maintain my property rights and for security reasons. Even if you lose money, you must plant something or landless peasants invade your land and settle on it".

A graver threat than land invasions to more prosperous farmers is terrorism. Both Peru's subversive groups, Sendero Luminoso and the MRTA (Tupac Amaru Revolutionary Movement) demand contributions to their fighting funds – they kill if these are denied. "Nobody lives on the farm any more," says Leon. "Maybe you visit once a week with a car load of armed guards in attendance. It's no way to live."

For most small growers in the Piura area there is no real alternative to the traditional cotton crop. This season, with a dearth of agricultural credit under the fiscal austerity programme of president Alberto Fujimoro Fujimori's government, farmers have had to mortgage to the hilt in order to plant. Many have sold their few remaining animals to survive until harvest time.

With the Tanguis harvest up to a month late, it is a nail-biting time for growers. Except for those with advance sales contracts to the bigger textile companies and traders, they have no money for essential but costly pesticide spraying. Crops could still be decimated through late spread of disease.

Gonzalo Priale predicts local costs will gradually come into line with international prices as the exchange rate rises.

New legislation allows agricultural land to be used as collateral against commercial loans, so financing will be easier next season. "Then cotton-growing will be profitable again," Priale says. "Cotton should be the principal crop of the Peruvian coast – I think it has a brilliant future."

Canadian farmers battle against debts

By Bernard Simon in Toronto

NEARLY one in five Canadian farmers is technically insolvent and cannot be salvaged by extra subsidies or other forms of financial aid, says the Canadian House of Commons standing committee on agriculture.

In a report updating a 1988 study on farm debt, the committee estimates the total debt of the country's 255,000 farmers at C$22.2bn ($19.32bn) last year, down slightly from C$23.2bn in 1987.

The committee, helped by a Calgary-based economic research firm, plans to publish reports every two years updating the financial condition of the farming sector.

Although the average debt is C$91,000 per farmer, there are wide variations according to regions and individuals. The report estimates that one-third of all farmers have little or no debt. About 47,000 are unable to repay the money they owe to financial institutions.

Canadian banks appear to have been more relnctant than their US counterparts in cracking down on delinquent borrowers. As a result, farm debt has fallen more slowly in Canada than south of the border.

The federal agriculture department recently raised its estimates of 1991 farm incomes, but the increase wes due entirely to new subsidies introduced earlier this year. Aggregate income this year of C$2.6bn will still be less than last year's C$3bn and well down on earnings of almost C$4bn in 1988 and 1989, mainly because of low grain prices.

Early indications point to a good wheat crop on the prairies this year. Soaking rains have fallen across Manitoba, Saskatchewan and Alberta in recent weeks.

World Bank criticises monopoly

Claire Bolderson in Jakarta

THE WORLD BANK has added its voice to criticism against a controversial clove trading monopoly established in Indonesia early this year under the leadership of President Suharto's youngest son.

The Clove Support and Trading Board (BPPC) was set np with the intention, according to the government and officials involved, of helping Indonesian clove farmers to get a better price for their product.

In its confidential annnal report on the Indonesian economy, the World Bank concludes that the opposite will be more likely. "In the medium term", the bank says, "the welfare of farmers may be reduced by the government's attempt to override market forces in setting prices directly".

Mr Jantja Worotitjan, the trading board's secretary general, rejects the charge. "The BPPC is not a monopoly – it won't disturb market forces."

Under tha system, farmers sell their cloves to village co-operatives at a floor price fixed by the government at between 7,000 and 8,500 rupiah ($3.60 and $4.40) a kilo. The BPPC is the only body anthorised to buy from the co-operatives and sell them to the kretek cigarette factories which consume almost all Indonesia's annual clove output of about 80,000 tonnes.

The trading consortium also adds charges for transport and storage to the cigarette firms' final bill. Kretek manufacturers say the cost at the factory gate of their raw material will be more than doubled.

The World Bank says the clove buying scheme is not yet operating because the consortium, which the bank does not mention by name, has not been able to put a nationwide trading system into place. "Confusion ovar trading arrangements in some areas has made it impossible for farmers to sell their cloves."

Mr Worotitjan acknowledges the system is not ready but says that by the beginning of June "everything will be running OK".

The report says that even if tbe consortium is able to develop an adequate trading network, it will not be able in the long term to buy all cloves at the floor price. It says farmers are already increasing production in response to higher prices and cigarette companies are looking at other choices to cloves.

"Once the consortium is forced by mounting losses to abandon the buffer scheme, the oversupply in the market will likely cause the farm gate price to fall below the levels prevailing prior to the initiation of the scheme," the World Bank says.

No mention is made in the report of the fact that the new clove trading consortium is headed by President Suharto's youngest son, Mr Hutomo Mandala Putra. Observers say however, that it was his involvement that prompted the government to agree to the scheme despite its dubious economic consequences.

The decision to allow a clove trading monopoly comes in direct contradiction to recent efforts to deregulate the Indonesian economy. Observers were also surprised when Indonesia's central bank announced last month that it would provide more than $200m in liquidity credits to help fund the BPPC despite a government clamp on such credits since last June because of inflation fears.

Critics of the BPPC say that it is a politically well connected trading system designed to benefit only the middle-men.

Long before the clove system was officially sanctioned at the beginning of this year, members of the BPPC were reported to have been buying clove stocks at the old price of between 3,000 and 4,000 rupiah a kilo.

The cigarette firms will almost certainly have to buy those stocks first when theirs run out but at the much higher price of about 12,500 rupiah.

Members of the Association of Cigarette Manufacturers, have said that it is for quick profit that the BPPC was really formed.

Whether or not that is true, the cigarette firms have been the losers. The World Bank says the farmers are also likely to suffer substantially.

Conservation group accused of neglecting environment

By John Hunt, Environment Correspondent

REFORM OF the International Tropical Timber Organisation, the body responsible for conservation and management of tropical forests, was called for yesterday by the World Wide Fund for Nature (WWF).

Mr Francis Sullivan, WWF forest conservation officer, said: "There is no evidence that the organisation has generated improvements in forest management practices on the ground. Social and environmental issues continue to be neglected by loggers and forest departments as well as by ITTO itself."

A report published by WWF calls for an independent review of the ITTO on which 47 countries are represented. This demand will be pursned by WWF when it speaks as one of the non-governmental organisations at the meeting of the ITTO council in Quito, Ecuador, from May 29 to June 6.

Mr Sullivan said that inadequate forestry conservation schemes were being approved "on the nod" by the ITTO without adequate checking. Sarawak was still exporting 10m cubic metres of timber a year and felling between 18m and 25m cubic metres. To be sustainable only 4.5m cubic metres should be cut annually.

WWF has also drawn up a report on the use of eco-labelling. These are placed on some timber products to claim that they are environmentally acceptable. "Most labels cannot be believed," says WWF. It urges retailers to remove all such labels as soon as possible.

WORLD COMMODITIES PRICES

MARKET REPORT

Robusta coffee prices closed well down egain in London for the second day running, and five contracts hed hit lifetime lows on the New York arabica market by midday. Dealers said selling by lunds in both London and New York remeined the main force behind the fall. There was also talk of long liquidation by a French trade house. While prices remain on a downward track, roasters appear largely content to sit back and watch levels fall, dealers added. Cocoa declined under trade hedging of Ivorian and Ghanaien supplies. New York cotton futures fell the 2 cents a lb limit during morning trading, revereing the recent run of highs. Plantings, which were dalayed in the Delta by heavy rains over the past month and a half, appear to heve improved as fields dried out end farmers were able to sow cotton. On the LME nickel continued to fall despite being technically oversold. Dealers said nickel was falling on fundamental weakness and current labour talks at Inco's Sudbury facilities were not yet cushioning declines. Much of the recent selling has been fund liquidation. Concern over Soviet supplies has elso faded recently, with LME atocks having built up considerably indicating that shipments are arriving in Europe without much delay.

Compiled from Reuters

London Markets

SPOT MARKETS		
Crude oil (per barrel FOB)		+ or -
Dubai	$15.75-5.90u	-0.45
Brent Blend (dated)	$10.55-8.65	-.425
Brent Blend (Jul)	$19.15-9.20	-0.55
W.T.I. (1 pm est)	$20.75-0.80u	-0.75
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$244-248	-5
Gas Oil	$184-185	-4
Heavy Fuel Oil	$69-71	
Naphtha	$207-210	-4½
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$358.30	-0.20
Silver (per troy oz)♣	405.0c	-0.5
Platinum (per troy oz)	$393.00	+1.25
Palladium (per troy oz)	$95.00	+0.60
Aluminium (free market)	$1305	+5
Copper (US Producer)	104c	
Lead (US Producer)	33c	-1
Nickel (free market)	375c	-4
Tin (Kuala Lumpur market)	15.42r	-0.07
Tin (New York)	285c	-2
Zinc (US Prime Western)	62c	
Cattle (live weight)†	111.28p	-0.18*
Sheep (dead weight)†	175.40p	-15.87
Pigs (live weight)†	94.38p	-1.66*
London daily sugar (raw)	$201q	-1
London daily sugar (white)	$290.5q	
Tate and Lyle export price	£223.0	-1.0
Barley (English feed)	£109v	
Maize (US No. 3 yellow)	£179.5	
Wheat (US Dark Northern)	£100	
Rubber (Jun)♥	53.25p	+0.25
Rubber (Jul)♥	53.75p	+0.25
Rubber (KL RSS No 1 Jun)	226.5m	
Coconut oil (Philippines)§	$337.5v	-2.5
Palm Oil (Malaysian)§	$322.5	
Copra (Philippines)§	$222.5u	
Soyabeans (US)	£158.5	-1.0
Cotton "A" index	86.25c	+0.85
Wooltops (64s Super)	384p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. q-Jun/Jul t-Jun u-Jul v-Jul/Aug. x-Jul/Aug. †Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

SUGAR – London FOX			($ per tonne)	
Raw	Close	Previous	High/Low	
Aug	170.80	171.00	171.80	169.00
Oct	170.00	170.00	171.40	168.80
Dec	171.80	173.00	170.00	
Mar	170.80	170.60	172.00	170.00
May	173.80	173.60	174.00	
Aug	177.60		176.00	
White	Close	Previous	High/Low	
Aug	278.9	280.0	279.5	278.0
Oct	248.8	250.5	249.5	247.0
Dec	242.8	243.5	242.5	
Mar	244.3	245.5	245.0	243.5

Turnover: Raw 458 (336) lots of 50 tonnes. White 1470 (776)
Paris- White (FFr per tonne): Aug 1536, Oct 1465.

CRUDE OIL – IPE			$/barrel	
	Latest	Previous	High/Low	
Jul	19.14	19.33	19.35	19.09
Aug	19.40	19.55	19.62	19.35
Sep	19.65	19.80	19.72	19.60
IPE Index	19.43	19.57		

Turnover 6050 (10261)

GAS OIL – IPE			$/tonne	
	Latest	Previous	High/Low	
Jun	179.25	181.75	180.00	176.50
Jul	175.00	177.00	175.75	174.00
Aug	176.70	178.75	176.75	175.50
Sep	178.50	180.00	178.50	177.25
Oct	181.75	183.00	181.75	179.50
Nov	183.80	185.00	183.25	181.25
Dec	184.00	186.00	184.80	182.50
Jan	181.00	183.50	182.00	181.00
Feb	178.75	180.25	178.75	

Turnover 8684 (9019) lots of 100 tonnes

WOOL

The next six weeks sees the release into the Australian auction system of 100,000 bales from the stockpile, with the intention of making good a shortfall which has developed between weights at auction and rosterings anticipated by the brokers. During recent weeks the Australian market has moved dearer with each sale day, and there is keen interest in whether the stockpile wool will remove some of the heat. For the British buyer, the appreciation in wool values is compounded by adverse movement in the Australian, NZ and US wool-buying dollars.

COCOA – London FOX			£/tonne	
	Close	Previous	High/Low	
May	585	590	570	569
Jul	600	608	607	593
Sep	628	635	633	621
Dec	665	671	669	658
Mar	699	703	700	692
May	722	726	722	718
Jul	744	748	749	738

Turnover: 8619 (3580) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for May 21 783.12 (787.13) 10 day average for May 22 786.43 (788.15)

COFFEE – London FOX			£/tonne	
	Close	Previous	High/Low	
May	505	519	514	498
Jul	530	547	545	521
Sep	554	572	567	548
Nov	574	592	589	572
Jan	591	614	607	593
Mar	612	635	620	610

Turnover:10539 (3454) lots of 5 tonnes
ICO indicator prices (US cents per pound) for May 21 : Comp. daily 67.00 (68.66). 15 day average 68.14 (68.22)

POTATOES – London FOX			£/tonne	
	Close	Previous	High/Low	
Mar	131.2	133.5	130.5	
Apr	133.0	135.3	135.0	132.5

Turnover 84 (27) lots of 40 tonnes.

SOYAMEAL – London FOX			£/tonne	
	Close	Previous	High/Low	
Aug	130.50	129.00	130.60	130.00
Oct	134.00		134.00	133.50
Dec	137.00		167.80	

Turnover 106 (378) lots of 20 tonnes.

FREIGHT – London FOX			$10/index point	
	Close	Previous	High/Low	
May	1715	1694	1710	1700
Jun	1663	1599	1665	1625
Jul	1532	1495	1535	1501
Oct	1630	1588	1630	1600
Jan	1625	1586	1615	1605
BFI	1685	1677		

Turnover 665 (375)

GRAINS – London FOX			£/tonne	
Wheat	Close	Previous	High/Low	
May	135.50	135.40	135.00	
Jun	135.80	136.10	136.00	135.60
Sep	111.30	111.50	111.30	111.20
Nov	114.10	114.15	114.10	113.90
Jan	117.65		117.80	117.45
Mar	120.65		120.65	120.50
May	124.00		123.85	123.80
Barley	Close	Previous	High/Low	
May	122.00	122.00		
Sep	107.90	107.50		
Nov	111.60	111.55	111.60	

Turnover: Wheat 321 (143), Barley 11 (10).
Turnover lots of 100 tonnes.

PIGS – London FOX			(Cash Settlement) p/kg	
	Close	Previous	High/Low	
Jun	120.0		120.0	119.5
Jul	117.5	117.0	117.0	116.5
Aug	114.0	114.5	114.0	
Sep	113.5	113.0	112.5	
Oct	113.5	113.0	112.8	112.6

Turnover:84 (69) lots of 3,250 kg

MGMI – London FOX				
	Close	Prev.	High	Low	Vol
Indx	140.14	140.08			
Jun	141.90	140.30	141.90		75
Jul	142.00	140.90	142.60	142.00	116
Sep	141.80	141.50	142.70	141.80	65

LONDON METAL EXCHANGE				(Prices supplied by Amalgamated Metal Trading)	
	Close	Previous	High/Low	AM Official	Kerb close	Open Interest
Aluminium, 99.7% purity ($ per tonne)					Total daily turnover 19,000 lots	
Cash	1295-7	1298-8	1300/1300	1300-1		
3 months	1327-8	1327-8	1340/1327	1332-3	1327-8	80,170 lots
Copper, Grade A (£ per tonne)					Total daily turnover 27,069 lots	
Cash	1294-6	1290-2	1298/1298	1297-8		
3 months	1308-9	1300.5-1.0	1312/1304	1307-8	1303-4	115,793 lots
Lead (£ per tonne)					Total daily turnover 2,039 lots	
Cash	019-21	324-5	319/310	318-8.25		
3 months	333-4	337-7.5	335/331.5	331.5-2.0	332-3	13,901 lots
Nickel ($ per tonne)					Total daily turnover 3,332 lots	
Cash	8030-50	8100-20	8060/8050	8055-60		
3 months	8075-85	8150-70	8250/8080	8099-100	8085-100	11,419 lots
Tin ($ per tonne)					Total daily turnover 2,031 lots	
Cash	5625-35	5605-10		5645-55		
3 months	5710-5	5690-700	5760/5710	5730-5	5720-5	6,752 lots
Zinc, Special High Grade ($ per tonne)					Total daily turnover 3,090 lots	
Cash	1085-7	1089-91		1091.5-2.0		
3 months	1101-3	1105-6	1112/1102	1107-8	1102-3	28,643 lots

LME Closing £/$ rate: SPOT: 1.7255 | 3 months: 1.7017 | 6 months: 1.6837 | 9 months: 1.6692

LONDON BULLION MARKET (Prices supplied by N.M.Rothschild)		
Gold (fine oz)	$ price	£ equivalent
Close	355.90-356.70	
Opening	357.50-357.90	
Morning fix	356.75	205.620
Afternoon fix	356.75	206.036
Day's high	357.70-358.00	
Day's low	355.80-355.20	

Loco Ldn Mean Gold Lending Rates (Vs US$)			
1 month	5.28	6 months	5.15
2 months	5.24	12 months	5.11
3 months	5.21		

Silver fix	p/fine oz	US cts equiv
Spot	235.65	409.00
3 months	242.65	415.35
6 months	248.70	421.30
12 months	261.10	435.10

GOLD COINS (Prices supplied by Engelhard Metals)		
	$ price	£ equivalent
Krugerrand	356.90-357.90	206.10-206.60
Maple leaf	365.45-368.45	211.05-211.55
New Sovereign	85.00-86.00	49.10-49.60

TRADED OPTIONS				
Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Jun	Jul	Jun	Jul
1200	167	119	3	3
1300	24	43	17	25
1400	5	8	93	00
Copper (Grade A)	Calls		Puts	
2100	144	153	14	11
2200	59	50	10	37
2300	10	34	70	00
Coffee	Jul	Sep	Jul	Sep
500	34	60	4	0
550	7	27	27	23
600	1	10	71	56
Cocoa	Jul	Sep	Jul	Sep
550	51	43	1	10
600	14	19	14	41
650	2	7	52	79
Brent Crude	Jul	Aug	Jul	Aug
1850				
1900			37	
1950	24			

New York

GOLD 100 troy oz.; $/troy oz.				
	Close	Previous	High/Low	
May	356.3	357.2	0	0
Jun	356.8	357.9	358.8	356.7
Jul	358.1	359.6	0	0
Aug	359.4	360.3	361.3	359.3
Oct	362.6	363.3	364.2	362.2
Dec	365.7	366.5	367.2	365.5
Feb	369.1	369.8	370.0	368.0
Apr	372.2	372.9	0	0
Jun	375.6	376.3	0	0

PLATINUM 50 troy oz; $/troy oz.				
	Close	Previous	High/Low	
Jul	392.1	395.9	396.3	391.9
Oct	396.5	400.3	400.5	395.5
Jan	400.7	404.5	404.0	401.0
Apr	404.7	408.1	0	0
Jul	408.7	412.1	0	0

SILVER 5,000 troy oz; cents/troy oz.				
	Close	Previous	High/Low	
May	403.2	403.5	403.5	402.0
Jun	403.2	403.7	0	0
Jul	405.8	406.3	411.0	404.0
Sep	410.7	411.2	415.0	409.5
Dec	417.6	418.1	422.5	416.5
Jan	419.6	420.1	0	0
Mar	425.1	425.6	425.5	424.0
May	430.4	430.9	0	0
Jul	435.6	436.1	433.0	433.0
Sep	441.3	441.8	0	0

HIGH GRADE COPPER 25,000 lbs; cents/lbs				
	Close	Previous	High/Low	
May	100.30	101.25	101.50	100.20
Jun	99.85	101.80	101.20	0
Jul	98.55	99.50	99.85	98.50
Aug	98.15	98.90	98.50	99.00
Sep	97.75	98.55	98.00	97.60
Oct	97.45	98.20	0	0
Nov	97.18	97.60	97.60	97.60
Dec	96.85	97.45	97.90	96.70
Jan	96.55	97.18	0	0
Feb	96.25	96.75	0	0

CRUDE OIL (Light) 42,000 US galls $/barrel				
	Latest	Previous	High/Low	
Jul	20.77	21.06	20.95	20.71
Aug	20.89	21.19	21.10	20.87
Sep	21.05	21.28	21.17	20.99
Oct	21.20	21.37	21.27	21.16
Nov	21.24	21.42	21.34	21.24
Dec	21.32	21.47	21.42	21.31
Jan	21.30	21.39	21.33	21.25
Feb	21.27	21.32	21.32	21.25
Mar	21.20	21.27	21.27	21.10
Apr	21.10	21.23	21.20	21.15

HEATING OIL 42,000 US galls, cents/US galls				
	Latest	Previous	High/Low	
Jun	5585	5606	5600	5570
Jul	5635	5673	5660	5615
Aug	5690	5743	5720	5680
Sep	5835	5863	5855	5825
Oct	5925	5968	5945	5925
Nov	6030	6078	6040	6030
Dec	6125	6168	6140	6110
Jan	6130	6178	6140	6120
Feb	6040	6073	6050	6015
Mar	5800	5848	5810	5800

COCOA 10 tonnes;$/tonnes				
	Close	Previous	High/Low	
Jul	978	993	985	971
Sep	1006	1019	1012	1000
Dec	1046	1061	1052	1042
Mar	1086	1101	1094	1086
May	1110	1130	1123	1116
Jul	1147	1158	1154	1146
Sep	1174	1183	1175	1173

COFFEE "C" 37,500lbs; cents/lbs				
	Close	Previous	High/Low	
Jul	86.80	87.85	87.40	86.25
Sep	89.05	89.85	89.75	88.50
Dec	92.10	92.90	92.75	91.75
Mar	95.10	95.75	95.20	95.00
May	97.10	97.40	97.15	97.00
Jul	99.25	100.00	99.25	99.00
Sep	100.90	101.00	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Jul	7.93	7.99	8.06	7.00
Oct	7.64	7.67	7.76	7.58
Mar	7.69	7.69	7.60	7.63
May	7.80	7.79	7.87	7.70
Jul	7.94	7.92	7.93	7.93
Oct	8.05	8.08	0	0

COTTON 50,000; cents/lbs				
	Close	Previous	High/Low	
Jul	91.86	93.86	93.41	91.86
Oct	80.60	82.60	81.60	80.60
Dec	74.05	76.05	75.32	74.05
Mar	74.86	76.86	76.10	74.86
May	75.28	77.28	76.18	75.28
Jul	75.70	77.70	76.80	75.80

ORANGE JUICE 15,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Jul	120.60	121.40	121.00	120.30
Sep	120.15	121.30	121.50	120.10
Nov	118.60	119.70	120.00	118.50

INDICES			
REUTERS (Base: September 18 1931 = 100)			
May 22	May 21	mnth ago	yr ago
1723.8	1726.1	1733.6	1924.6
DOW JONES (Base: Dec. 31 1974 = 100)			

	May 21	May 20	mnth ago	yr ago
Spot	128.82	128.84	128.49	135.81
Futures	126.36	126.62	127.95	134.36

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel				
	Close	Previous	High/Low	
Jul	579/4	579/0	586/0	578/2
Aug	583/4	583/2	590/0	582/0
Sep	584/6	584/2	591/4	583/0
Nov	593/2	590/0	599/2	590/4
Jan	603/6	601/0	610/4	601/2
Mar	614/4	610/4	620/4	612/4
May	622/0	618/6	628/4	621/0
Jul	630/0	625/0	634/0	627/4

SOYABEAN OIL 60,000 lbs; cents/lb				
	Close	Previous	High/Low	
Jul	20.10	19.95	20.45	19.99
Aug	20.36	20.11	20.61	20.17
Sep	20.55	20.28	20.78	20.36
Oct	20.70	20.43	20.93	20.54
Dec	21.02	20.78	21.25	20.83
Jan	21.10	20.91	21.35	21.03
Mar	21.46	21.24	21.65	21.45
May	21.77	21.50	0	0

SOYABEAN MEAL 100 tons; $/ton				
	Close	Previous	High/Low	
Jul	173.8	173.9	175.9	173.5
Aug	174.8	174.0	177.1	174.8
Sep	176.1	175.9	178.1	176.0
Oct	177.4	176.6	178.8	177.1
Dec	179.4	178.9	181.2	179.0
Jan	180.2	179.5	181.7	180.0
Mar	181.5	1180.5	183.0	181.5
May	181.0	180.5	0	0

MAIZE 5,000 bu min; cents/56lb bushel				
	Close	Previous	High/Low	
May	259/4	259/0	262/0	258/2
Jul	249/6	250/6	252/4	249/0
Sep	248/4	248/6	251/0	248/0
Dec	247/6	248/0	250/4	247/4
Mar	255/2	256/4	257/6	254/6
Jul	264/2	263/6	266/0	263/6

WHEAT 5,000 bu min; cents/60lb-bushel				
	Close	Previous	High/Low	
May	324/0	319/6	324/0	321/0
Sep	306/0	303/4	307/0	305/0
Dec	318/6	315/4	318/6	316/2
Mar	326/0	322/2	326/0	323/0

LIVE CATTLE 40,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Jun	75.22	74.45	75.50	74.57
Aug	73.22	72.87	73.47	72.70
Oct	74.77	74.46	74.95	74.60
Dec	75.40	75.12	75.60	75.20
Feb	74.90	74.67	75.02	74.75
Apr	75.55	75.35	75.85	75.50
Jun	74.20	73.90	74.20	73.80

LIVE HOGS 30,000 lb; cents/lbs				
	Close	Previous	High/Low	
Jun	56.95	57.07	57.37	56.82
Jul	55.07	56.25	56.57	54.85
Aug	52.22	52.27	52.55	51.90
Oct	47.10	47.25	47.55	46.85
Dec	47.02	47.42	47.75	47.00
Feb	47.15	47.20	47.45	47.10
Apr	45.55	45.35	45.70	45.55
Jun	49.75	49.75	0	0

PORK BELLIES 40,000 lbs; cents/lb				
	Close	Previous	High/Low	
May	59.80	59.20	60.60	58.50
Jul	56.55	56.65	57.82	55.40
Aug	53.20	53.50	54.60	52.10
Feb	55.70	55.72	56.60	55.35
Mar	55.80	55.30	56.60	56.25

LONDON STOCK EXCHANGE

Gains reversed in a gloomy market

CONCERN OVER the recession in the domestic economy depressed the UK stock market yesterday, ontweighing any benefits from favourable comments on prospects for inflation and interest rates from the prime minister and from the Halifax, Britain's largest building society. After challenging an important testing level in early trading, both stock futures and underlying equities broke downwards.

Trading volume, as measured by the Saaq total, increased and traders claimed to have seen some indications of forced selling by institutions seeking to restore cash ratios. Speculative intarest was damped down by reports from an indecisive meeting between Hanson and ICI, and by selling of Hanson stock yesterday.

Eqnities opened steadily behind Wall Street's firmness overnight and assurances from Mr John Major, the UK prime minister, that future Conservative governments would never allow inflation to surge ahead again.

The blue touch paper, however, was lit when the stock index futures opened and the June contract on the FT-SE Index quickly moved to 2,505. The gain in the underlying equity market increased to ten points before it became clear that neither tbe future contract nor the stock market could hold its gains.

With investors also discouraged by a new flow of rights issues totalling £200m, led by W.H. Smith, the retailer, which asked for £148m, equities soon turned negative. Official statistics confirmed tbat gross national product in tbe UK fell in the first quarter of the year for the third consecutive period.

Economic gloom was fostered by a batch of corporate statements, notably from Land Securities, Britain's largest property gronp, which cut its net asset valuation substantially in response to the continued depression in demand for business property in the UK.

Nor was the stock market greatly impressed by the first-quarter trading statement from BAT Industries and, later in the session, there was a sharp fall in Ranks Hovis McDougall following its interim statement. An executive of TSB, the banking group, warned tbat Britain's recession could drag on into next year.

At its low point, the market was down by 18 points on the Footsie scale before a modest rally, inspired by a similar trend on Wall Street, lifted share prices a shade. The final reading put the FT-SE Index st 2,465.9 for a loss of 16.8 on the day. Seaq-reported volume, which takes in both retail and intra-market business, increased to 459.4m shares from Tuesday's 424.9m.

Tbe mood was decldely gloomy at the close. Little enconragement was drawn from the decision by the Halifax to enable lts annually rated home borrowers to benefit from the recent cuts in mortgage rates, although the Halifax managing director expected the next interest rate reduction "within a couple of weeks".

Mr Robin Aspinall, chart stratcgist at Scbroders, tbe London merchant bank, warned that yesterday's market resembled a classic "topping-out" pattern, suggesting that it could now be threatened by a sizeable downward correction.

Traders noted tbe absence of follow-through when the FT-SE 2,500 mark was challenged in early trading. Some helieve that investment fund managers, needing cash for rigbts issues, are now reining in their daily operations in the equity market and selling stock where they see an opportunity to take profits.

Account Dealing Dates		
*First Dealings:		
Apr 29	May 20	Jun 3
Option Declarations:		
May 16	May 30	Jun 13
Last Dealings:		
May 17	May 31	Jun 14
Account Day:		
May 28	Jun 10	Jun 24

*New-time dealings may take place from 8.30 am two business days earlier.

Properties revision disturbs

LAND Securities, the biggest UK property company, disturbed the market with final results at tha lower end of expectations and indicated that the UK property market, particularly in central London, showed no signs of recovering before the end of this year.

With a decline in the net *asset value (NAV) to 671p from* 867p in the previous year and tba chairman warning that "this year will be primarily one of consolidation", analysts took their red pens to asset value forecasts. An NAV of 600p to 620p is now expected in 1991-92.

Land closed 9 cheaper at 521p. The other market leaders, particularly those with a strong London portfolio, came under pressnre: MEPC retreated 9 to 501p, Great Portland shed 12 to 213p and Greycoat dropped 13 to 301p.

C and W depressed

Cable and Wireless was one of the poorest performers among the Footsie constituents, the shares sliding 13 to 509p on turnover of 4.9m – much higher than usual for the stock. Depressing the shares, specialists said, was a series of profits downgrades, after results from the 55 per cent owned Hong Kong Telecom.

There were also suggestions that the group could be lining up an acquisition to be financed by a cash-raising operation, possibly via a bond issne. There have been rumours in capital markets in recent days that a big issue is being prepared.

Another story about C and W was that the company may be looking to reduce further its stake in Hong Kong Telecom, although this suggestion was shrugged aside by some observers, who said such a move would pnt C and W shares higher.

There were also hints that a number of institutions had been switching out of C and W and into BT, although BT's turnover was a routine 3m and the share price an unremarkable 2 firmer at 373p.

Ms Tressan MacCarthy, electronic analyst at Panmure Gordon, took a bearish line on the stock, cutting her current year forecast for C and W from £593m to £585m and that for 1992 from £715m to £705m. "Our downgrades put C and W on a prospective rating of 15.4, a 49 per cent premium to BT; we do not believe C and W should sustain this premium," said the Panmure analyst.

Courtaulds surprise

Significantly higher profits than expected from Courtaulds, the UK chemical group which demerged its textila interests last year, pleasantly surprised ahare traders but sector analysts sounded considerably less happy.

They maintained that they had been encouraged to cut full year profits estimates and not to be over-impressed by the excellent interim figures reported in November. The *chairman said then that full* year results would be affected by difficult trading conditions and exchange rate movements.

The pruning of forecasts since that time had left the market looking for profits in the £175m to £180m range; ahead of the results, two investment houses had advised top-slicing (profit-taking) and another a switch into BOC Group.

Yesterday's announcement of profits 11 per cent np at £186.3m, together with a higher dividend payout, sparked excitement in the market. With covering of short positions by marketmakers providing added momentum, the shares raced np to 397p before ending 6 higher on balance at 385p. Turnover expanded to 4.3m.

RHM weakens

Ranks Hovis McDougall was under pressure as hopes of a strong second half by the milling, baking and grocery products group began to fade and worries grew about the final dividend.

Interim profits of £76.5m, against £76.9m last time, were at the lower end of analysts' estimates. But it was the chairman's statement, warning of difficult trading conditions persisting into the second half, that upset the market.

Selling by institutions led to a high 3.5m shares changing hands and RHM closed 24 lower at 287p. Analysts cut their full year estimates to around £150m from £155m to £160m, and added that until RHM made an acquisition the shares would continue to lag behind the market.

A somewhat inscrutable announcement from ICI that it had met with Hanson this week coincided with a fall in the two stocks. ICI came off 6 to 1226p on a turnover of 1.9m shares and Hanson declined 5 to 210½p on a heavy turnover of 10m.

ICI's announcement said: "Hanson reiterated that its recent purchase of shares in ICI had been made for investment purposes, but that all its options remained open." Traders said tbe statement prompted a "knee-jerk reaction" to the two stocks.

Heavy selling by private shareholders knocked the newly floated Mirror Gronp Newspapers. The stock was sold down to 112p a share – 13 below the offer price – before rallying to end 2 off on the day at 118p on turnover of 10m.

One trader said the reason the shares did not tumble further was that index or tracking funds – lnstltutlons wbo invest through an automated system in stocks representative of the FT-A All-Share index – bought in. There was also some American interest.

Enterprise Oil moved up 6 more to 528p on turnover of 4.3m, sobstantially increased from recent levels. The stock was still responding to a number of buy recommendations, with S.G. Warburg Securities, Smith New Court and County NatWest said to have heen very strong supporters of the shares.

A big put-through of BP – lines of 2.8m and 2.3m BP shares were traded at 325p – dominated turnover in tba stock, which settled a net 3 off at 325p. Shell, weakened during recent sessions by switching into BP, dipped 7 to 506p.

Monument Oil & Gas held at 38¼p after more encouraging drilling news. The near 10m line of shares traded late on Tuesday was thought to have been on behalf of the Swedish interests wbo last year swapped assets for Monument shares.

Altbough Bass's balf-year results were disappointing, they had been heavily leaked and were largely discounted by the market. The shares only lost 4 to 954p in spite of a warning abont continuing gloom in the second half. Mr Geoffrey Collyer of securities house County NatWest cut his estimate of Bass's end of year profits by £10m to £545m.

Tbe announcement of reduced profits in Bass's betting arm, coupled with worries over the government's new betting regulations, knocked Ladbroke and the shares shed 7 to 262p.

J.A. Devenish, the west of England brewer fighting off a hostile bid from Boddington, the public houses, botels and health-care group, fell 9 to 223p after announcing that it was to stop brewing.

Macarthy, tbe retail pharmacy group, moved smartly forward on aggressive buying. Traders believed lt to be emanating largely from one source and speculation arose of possible predatory moves. Snch hopes have periodically lifted the stock, which settled 24 higher at 192p. After the close of market trading, Grampian Holdings announced share exchange terms valuing Macarthy at around £56.5m.

A presentation to institutional investors in the wake of Tuesday's well-received annual results boosted shares of steel casting company William Cook. They rose to 298p before closing 13 up on the day at 294p. Brokerage bouse Panmure Gordon hosted yesterday's presentation.

Hopes that the negotiations for the sale of the Cammell Laird shipyard at Birkenhead would be concluded successfully lifted VSEL Consortium, the yard's owner, 9 further to 423p.

W.H. Smith "A" climbed 14 to 382p on positive response to lts £147.8m rights issue and the disposal of a television programme auppller. Analysts said that together, the moves would almost eliminate Smitb's debt.

Scapa Group, the paper and printing industry supplier, retreated 8 to 150p after calling *on shareholders* for £55.6m to finance expansion. Group annual profits were sligbtly lower, as expected.

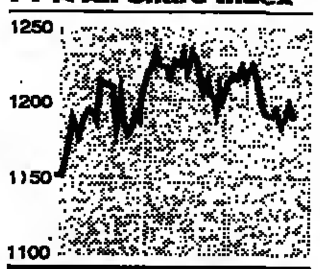
Reports of a boardroom rift lowered Barry Wehmiller 13 to 211p. Last month the specialist packaging equipment company revealed its first profits fall in seven years.

National Power ran into a bout of profit-taking and finished 4 easier at 140½p with 14m shares traded. PowerGen also came under fire and ran back 6½ to 144½p with 8.6m changing hands.

The Water Package lost 20 to £2998. Yorkshire Water kicks off the preliminary reporting season today, with analysts looking for profits in the region of £106m to £113m and a dividend total of 17.7p.

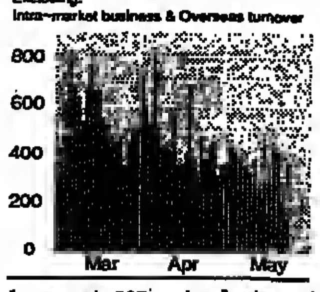
■ Other Market statistics, including the FT-Actuaries share index and London Traded Options, Page 20

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million)
Excluding:
Intra-market business & Overseas turnover



NEW HIGHS AND LOWS FOR 1991

NEW HIGHS (78).

BRITISH FUNDS (5) Treas. 8¼pc 1993, Treas. 2pc IL 1992, Treas. 2pc IL 1994, Treas. 2½pc IL 2001, Treas. 2½pc IL 2003, AMERICANS (1) Dana, BANKS (1) Mitsubishi, BREWERS (2) Bulmer (HP), Macdonald Martin A, BUILDINGS (1) Berkeley, CHEMICALS (3) Caird, Do. 7p Prf. 2009, Jeyes, STORES (2) OS, T & S, ELECTRICALS (2) Farnell, Philips Lamps, ELECTRICITY (14) East Midlands, Eastern, London, Manweb, Midlands, National Power, Northern, Norweb, PowerGen, Seeboard, Southern, Sth. Wales, Sthn. Western, Yorkshire, ENGINEERING (3) Cook (Wm), VSEL Consrtm., FOODS (4) Farepak, Iceland Frozen, Nestle (Reg.), Watson & Philip, INDUSTRIALS (15) Amberley, Amer. Bus. Sys., Astra A, Brierley Invs., Colorgen, Dolphin Packing., Grampian, Le Creuset, Lionheart, Macarthy, Medeva, Pathfinders, Warner Howard, Wood (A), Young (H), LEISURE (1) Euro Disney, MOTORS (2) Evans Halshaw, Sanderson M. & E., SOUTH AFRICANS (2) SA Brews., SASOL, TEXTILES (1) Lyles (S), TRUSTS (16) Archimedes, Bankers, Fimg. Overseas, JF Philippine, Korea Libiro., Korea-Europe, Mexico Fd., Mid Wynd, Murray Inc., Personal Assets, Sphere Zero Prf., OILS (1) Petrofina, MINES (9) Anglo Amer., Doornfontein, ERGO, Elsburg, Gold Fields SA, Impala Plat., Libanon, Western Areas, Western Deep.

NEW LOWS (25).

BUILDINGS (4) Dunton, Jackson, NSM, Westminster Scaffldg., STORES (2) Brown & Jackson, Sears, ELECTRICALS (1) Trace Cmptrs., ENGINEERING (1) Manganese Bronze, FOODS (2) REA, RHM, INDUSTRIALS (6) Apollo Metals, Apollo Watch Prds., Courtney Pope, Eurocopy, Hawthorn Leslie, Westerly, INSURANCE (1) Trade Indemnity, LEISURE (1) Grampian TV A, PROPERTY (1) McInerney, TRUSTS (1) Renaissance, OILS (2) Blackland, Teredo, MINES (3) Eglington Expir., Nth. West Expir., Pancont'l.

FINANCIAL TIMES STOCK INDICES

	May 22	May 21	May 20	May 17	May 16	Year Ago	1991 High	1991 Low	Since Compilation High	Since Compilation Low
Government Secs	84.49	84.37	84.16	84.04	84.24	78.56	85.82 (10/2)	82.17 (2/1)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	93.49	93.41	93.35	93.51	93.55	87.25	94.84 (5/4)	90.59 (2/1)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary Share ●	1933.4	1942.5	1927.3	1926.2	1935.8	1810.0	2074.5 (5/4)	1606.3 (16/1)	2074.5 (5/4/91)	49.4 (26/6/40)
Gold Mines	165.9	159.2	156.4	155.8	156.5	211.5	179.7 (14/1)	127.0 (22/2)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2465.9	2482.7	2466.6	2453.9	2471.9	2237.4	2545.2 (5/4)	2054.8 (16/1)	2545.3 (5/4/91)	986.9 (23/7/84)
FT-SE Eurotrack 200	1165.21	1162.66	1154.45	1151.02	1151.25	-	1176.39 (16/4)	938.62 (16/1)	1176.39 (16/4/91)	938.62 (16/1/91)
●Ord. Div. Yield	4.96	4.93	4.95	4.96	4.94	5.27				
●Earning Yld %(full)	8.65	8.64	8.69	8.71	8.66	11.47				
●P/E Ratio(Net)(*)	14.23	14.30	14.22	14.15	14.27	10.54				
SEAQ Bargns 4.45pm	27,335	26,178	24,575	32,707	30,159	31,298				
Equity Turnover(£m)†	-	738.79	573.64	863.03	1288.22	1112.50				
Equity Bargains†	-	25,528	24,468	32,394	29,032	30,814				
Shares Traded (ml)†	-	371.5	278.0	400.7	424.1	463.4				

Basis 100 Govt. Secs. 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, Basis 1000 FT-SE 100 31/12/83, § FT-SE Eurotrack 200 26/10/90. ‡ Nil 13.65 § Indicative

Ordinary Share Index, Hourly changes — Day's High 1953.9 — Day's Low 1932.5

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
1949.7	1951.5	1945.1	1941.0	1939.6	1937.6	1937.7	1937.5	1933.7

FT-SE 100, Hourly changes — Day's High 2492.9 — Day's Low 2464.0

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
2488.1	2490.3	2482.6	2476.1	2474.2	2470.3	2465.5	2469.8	2465.9

FT-SE Eurotrack 200, Hourly changes — Day's High 1167.71 — Day's Low 1164.45

Open	10 am	11 am	12 pm	1 pm	2 pm	3 pm
1167.33	1166.63	1166.58	1167.56	1167.14	1165.22	1165.78

GILT EDGED ACTIVITY

Indices*	May 21	May 20
Gilt Edged Bargains	93.7	88.0
5 – Day average	94.7	97.0

*SE Activity 1974.
†Excluding intra-market business & Overseas turnover.

London report and latest Share index: Tel. 0898 123001

TRADING VOLUME IN MAJOR STOCKS

	Volume 000's	Closing Price	Day's change
ADT	1,000	70	-4
ASDA Group	1,600	111	
Abbey National	1,400	276	+2
Albert Fisher	10,000	119	-2
Allied - Lyons	2,000	555	-14
Amstrad	3,200	65	-2
Anglian Water	904	300	-1
Argos	203	310	+1
Argyll Group	1,500	294	-3
Ass. Brit Foods	132	518	+5
BAA	1,700	427	-7
BAT Inds	879	639	-4
[illegible]			
British Land	482	278	-4
BP	8,000	325	-3
British Steel	3,900	122	-1½
British Telecom	3,000	373	+2
Bunzl	305	90	
Burmah Castrol	471	549	+1
Burton	2,000	78½	1½
Cable & Wire	4,900	509	-13
Cadburys	1,400	367	+1
Calor Group	167	209	
Carlton Comms	179	434	13
Coats Viyella	1,300	145	
Comm. Union	496	488	-10
Cookson	4,400	121	-1½
Courtaulds	4,500	385	+6
[illegible]			

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm

EQUITY FUTURES AND OPTIONS TRADING

LONDON stock index futures drifted lower for mnch of the session in aimless, low volume trading as the derivatives market continned to indicate no immediate change in the outlook for UK shares.

The June FT-SE 100 index contract began promisingly, as a sqneeze developed after some *independent fntures traders* were forced to cover their positions.

The rally soon ran out of steam, however, and the gains were slowly given up, with June eventnally closing 17 lower at 2,473.

For most of the day the futures market did not give a lead to the stock market. June held a premium of aronnd 10 points to the spot FT-SE index, which is in any case the theoretical premium.

In traded options, there was nnease on tbe outlook for Amstrad sbares following a decline on Wall Street by IBM. A buyer of 500 September 60 pnts swelled tnrnover as Amstrad slipped 2 to 65p.

Tbe decline in Sears prompted buying of the September 20 calls and September 80 pnts on the hope that the shares would rebound.

Hopes of a recovery in Dixons prompted an investor to sell 500 June 200 pnts. Other *larger trades included* a buyer of 200 British Airways May 600 pnts; and a buyer of 200 Courtaulds 420 pnts following its final results.

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Five to Fifteen Years

BRITISH FUNDS – Contd

Undated

Index-Linked

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base for indexing (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for September 1990: 129.3 and for April 1991: 133.1.

INT. BANK AND O'SEAS

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

FOREIGN BONDS & RAILS

[illegible]

Continued on next page

APPOINTMENTS

Changing duties at Bass

■ BASS has made the following changes in board responsibilities from June 1. Mr Robin Manners, currently chief executive of Bass Brewers, will take charge of group human resource development and policies. Dr Tony Portno will succeed him at Bass Brewers, remaining chairman of Britvic Soft Drinks. Mr Peter Sherlock, chief executive of Bass Leisure, becomes responsible for Augustus Barnett and Chateau Lascombes.

Mr Michael S. Perry becomes a non-executive director from June 1. He is a vice chairman of Unilever.

■ Mr Hiroshi Katsuta has been appointed senior adviser to the MIM Investment Trust Management Co, part of the INVESCO MIM group. He was president of Yamaichi Business Services, and will be standing for election as chairman of MIM Investment Trust Management at the annual meeting on June 28.

■ COMMERCIAL UNION has appointed as non-executive directors Mr P.J. Gillam, a managing director of The British Petroleum Company, and Professor H. Meij, professor in strategic management at the Free University of Amsterdam and a former board member of the Unilever Group. Mr M.H Fisher and Sir Christopher Tugendhat retire from the board on June 30.

Mr Olivier Groues *(pictured)* has been appointed director of marketing at RANK XEROX, based at international headquarters in Marlow. He is responsible for all Rank Xerox marketing activities, European logistics, the supplies organisation, service support, and corporate affairs, including the co-ordination of external relations with European institutes. He will continue as non-executive chairman, Rank Xerox, France, where he was previously general manager.

■ Mr Joe Sardella has been appointed chief operating officer of WATERFORD WEDGWOOD's ceramics operation in the US. He joins from Unilever's Calvin Klein Cosmetics Company where he was senior vice president.

■ Mr Michael L. Downs has been appointed managing director of ENGINEERING INSURANCE COMPANY, London, international arm of The Engineering Insurance Group. The group is a partnership of the Hartford Steam Boiler Inspection and Insurance Co and the General Re-Insurance Corporation of America. Mr Downs joined the Hartford Steam Boiler group in 1973.

■ Mr Stephen L. Howard, vice president of corporate development and general counsel of Cookson America Inc, has been appointed chief executive, COOKSON GROUP corporate development, and a member of the group executive committee.

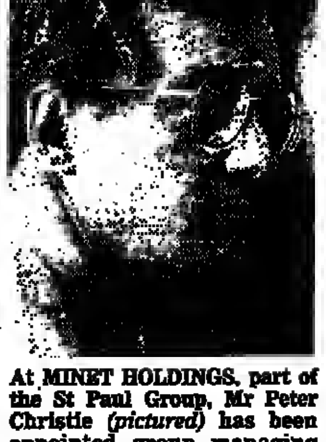
■ AUTOMATED SECURITY (HOLDINGS), Farnham, has appointed Mr Hugh P. Hackett as managing director of Modern Security Systems, the group's major systems division. He joins from Thorn Security, where he was managing director of the fire and security system division.

■ VAX APPLIANCES has appointed Mr David Everitt as managing director of its German subsidiary, Arlett, near Dusseldorf. He was director and general manager of Barbour (Europe).

■ Mr Ian Robertson has been appointed ROVER GROUP purchasing director. He was logistics director of Rover's small and medium cars operation, Longbridge.

■ COURTAULDS has appointed as non-executive directors Mr Graham Hearne, chief executive of Enterprise Oil, and Mr David Lees, chairman and chief executive of GKN.

■ HILL SAMUEL MORTGAGE SERVICES has appointed Mr Gordon Ashworth as financial controller. He became financial analyst, Hill Samuel Investment Services Group in 1989.



At MINET HOLDINGS, part of the St Paul Group, Mr Peter Christie *(pictured)* has been appointed group managing director and chief operating officer from June 1. Mr Christie, a group deputy chairman and responsible for the group's interests in North America, will be based in London.

LONDON SHARE SERVICE

● Latest Share Prices are available on FT Cityline. To obtain your free Share Code Booklet ring the FT Cityline help desk on 071-925-2128

AMERICANS

[illegible]

CANADIANS

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS – Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY AND STORES – Contd

[illegible]

ELECTRICALS

[illegible]

ELECTRICITY

[illegible]

ENGINEERING

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.) – Contd

[illegible]

INDUSTRIALS (Miscel.) – Contd

[illegible]

INSURANCES

[illegible]

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LONDON SHARE SERVICE

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LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PROPERTY

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRANSPORT

[illegible]

TRANSPORT—Contd

[illegible]

INVESTMENT TRUST

[illegible]

INVESTMENT TRUST—Contd

[illegible]

Net asset values supplied by County NatWest Wood Mackenzie

FINANCE, LAND, ETC

[illegible]

WATER

[illegible]

OIL AND GAS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

MINES—Contd

[illegible]

Tins

[illegible]

Miscellaneous

[illegible]

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha refers to shares traded through SEAQ by at least two marketmakers and with a normal market size of 2,000 or more, based on experience of how many of its shares are traded in the typical deal. β Beta refers to all other shares. γ Gamma refers to other traded instruments.

Highs and lows are based on intra-day mid prices. Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♦ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Not officially listed.
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- ♣ Not comparable
- ♦ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E usually provided.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs ¶¶ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment; Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1990-91. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1991. K Dividend and yield based on prospectus or other official estimates for 1990. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1991-92. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1991. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Craig & Rose £1	β	650	......
Finlay Pkg. 5p	β	29	......
Holt (Jos) 25p	β	1025	......
Helton Hldgs	γ	43	......
IRG		145	......
United Drug		160	......

IRISH

Cap. 8½% Ln. 1991	£99¼	......
9pc Cap Ln. 1996	£98½	......
Fin. 13% 97/02	£114¼	......
Arnotts	160	......

TRADITIONAL OPTIONS

3-month call rates

Industrials

	p
Allied-Lyons	46
Amstrad	7
Astec (BSR)	6
BAT	60
BOC Grp	31
BTR	33
Barclays	38
Blue Circle	24
Boots	30
Bowaters	53
Brit Aerospace	56
British Steel	12
Brit. Telecom	29
Cadburys	33
Charter Cons	45
Comm Union	44
Courtaulds	33
Eurotunnel	50
FKI	6
FNFC	28
Gen Accident	48
GEC	17
Glaxo	80
Grand Met	62
Guardian	19
GKN	31
Hanson	19
Hawker Sidd	39
ICI	80
Ladbroke	22
Legal & Gen	36
Lex Service	20
Lloyds Bank	30
Lucas Inds	11
Marks & Spencer	21
Midland Bk	18
Nat West Bk	27
P & O Dfd	51
Racal Elect	13
RHM	28
Rank Org Ord	63
Ratners	17
Reed Intnl	36
Sears	8½
SmKl. Beecham A	58
TI	45
TSB	13
Tesco	21
Thorn EMI	64
Trust Houses	23
T&N	15
Unilever	60
Vickers	19
Wellcome	40

Property

Brit Land	30
Control Secs	3
Land Securities	45
MEPC	48
Mountleigh	11½

Oils

Aviva Petlm	3
Brit Petroleum	28
Burmah Castrol	49
Conroy Petlm	10
Gaelic Res	1
Premier	6
Shell	41
Tuskar Res	2
Ultramar	30

Mines

Lonrho	21
RTZ	48

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AUTHORISED UNIT TRUSTS

ManuLife Management Ltd (1200)H
St George's Way, Stevenage Dealings: 071-256 5858

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Grs
Growth Units	5¼	131.2	131.2	139.6	-0.2	4.06
Gilt & Fxd Inc	3	142.1	142.1	149.5	+0.4	8.61
Intl Growth	5¼	146.2	147.6xd	157.8	+0.9	0.41
North American 9	5¼	92.35	94.04	100.0	+0.02	0.32
Far East	5¼	118.8	119.8	127.4	+0.1	0.33
UK Smaller Cos	5¼	108.2	113.3xd	120.5	+0.1	2.94
European	5¼	53.65	53.65	57.21	+0.27	1.21
Japanese Growth	5¼	37.59	37.59	40.27	+0.02	0.00
Managed P'folio	5¼	48.14	48.48xd	51.57	+0.04	1.72
High Income	5¼	148.9	151.0	160.6	-0.3	6.08
High Yielding Gilt	5¼	60.98	60.98xd	64.27	+0.11	9.56
Cash		50.66	50.66	50.66	+0.01	11.31

Geoffrey Morley Unit Mgrs Ltd (1200)F
3 Bedford Park, Croydon CR0 2AQ 081-686 9818

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Grs
Exempt Unit Tst	4	116.62	116.62	124.40	+0.06	2.60
Exempt Smllr Cos	3½	231.04	231.04	250.25	-0.56	1.40

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♠) - 1401 to 1700 hours; (♦) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set at the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH
Tel: 071 – 379 – 0444.

FT MANAGED FUNDS SERVICE

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	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Stewart Ivory Unit Tst Mgrs Ltd (1500)H						
45 Charlotte Sq, Edinburgh 031-226 3271						
American	5	289.4	289.4	309.2	-0.2	1.39
(Accum Units)	5	338.5	338.5	361.7	-0.2	1.39
British	5	791.2	791.2	837.8	-0.1	5.75
(Accum Units)	5	1266.7	1266.7	1340.0	-0.1	5.75
European	5	328.8	328.8	360.9	+0.4	1.51
(Accum Units)	5	352.4	352.4	376.1	+0.5	1.51
Japan	5	117.9	117.9	125.3	----	-
(Accum Units)	5	118.8	118.8	126.3	----	-
New Pacific	5	169.0	169.0	179.6	-0.1	2.11
(Accum Units)	5	170.3	170.3	181.0	-0.1	2.11
PEP	5	132.1	134.7	142.6	+1.1	3.34
Mngd Equity	5	118.6	120.4	127.4	----	3.66
Mngd Equity Acc	5	122.7	124.6	131.0	----	3.66
Mngd Cash	3	96.57	96.57	101.9	----	11.94
(Accum Units)	5	111.9	111.9	117.4	----	11.94
Mngd Fixed Int Acc	5	118.4	118.4	125.3	+0.1	6.67
Majority Stg	1	100.49	100.49	101.49	+0.02	11.34
Majority Stg Acc	1	103.30	103.30	104.33	+0.02	11.34
Sheetbrand Intl Inv Mngrs Ltd (1200)F						
Admin: 5 Rayleigh Rd, Hutton, Brentwood, Essex						
Enquiries: 0277 227300 Dealing: 0277 261010						
International May 15	0	49.98	49.98	50.38	----	3.43
Sun Alliance Unit Tst Mngmt Ltd (1200)F						
Sun Alliance House, Horsham 0403 56293						
Equity	6	584.6	592.8	634.0	+0.4	3.47
North America	6	74.81	74.81	80.01	+0.44	1.13
Far East	6	94.17	95.37	102.0	+0.2	0.82
W'wide Bond	6	45.58	45.58xd	48.47	----	8.13
W'wide Financial	6	34.27	34.27	36.65	+0.04	3.46
W'wide Technology	6	40.77	40.77	43.60	-0.01	0.97
European	6	66.33	66.33	70.94	+0.38	1.28
Equity Income	6	70.08	70.08	74.95	+0.07	5.42
Portfolio	6	57.36	57.36xd	61.35	+0.15	3.04
Sun Life of Canada Unit Mgrs Ltd (1000)H						
Basingview, Basingstoke, Hants 0800 525725						
American Growth	6	24.89	24.89	26.63	+0.07	0.62
Managed Assets	6	102.37	102.96	110.14	+0.07	4.95
UK Income	6	33.88	34.41	36.81	+0.05	4.91
UK Growth	6	32.76	33.21	35.52	+0.06	3.62
Worldwide Growth	6	23.72	23.72xd	25.37	+0.01	1.31
Sun Life Trust Mngmt Ltd (1200)H						

	Bid Price	Offer Price	+ or -	Yield Gross
Edinburgh Fund Mngrs PLC				
Exempt Funds				
American May 22	150.0	154.1	-4.2	1.62
Managed May 22	140.8	146.1	-0.8	3.94
Japan May 22	118.5	121.8	-1.7	0.08
Sm Jap Cos May 17	572.7	588.4	-34.4	0.08
Fidelity Investment Services Ltd				
Mngd Pens P'folio	129.0	133.3	+0.30	3.02
Robert Fleming Asset Mngmt Ltd				
Am Exempt	£451.62	458.38	-1.20	1.70
Gen Exempt	£129.43	132.36	+0.35	3.79
Jap Exempt	£483.29	492.74	-2.81	0.91
Pacific Exempt	£98.850	100.89	-1.69	2.38
Contl Euro Exempt	£97.01	98.91	+0.41	2.23
Indexed Exempt May 16	£125.23	128.38	----	5.07
Amer Indxd Expt May 16	£97.62	98.60	----	3.04
Japan Indxd Expt May 16	£66.30	67.02	----	0.72
Euro Indxd Expt May 16	£95.24	97.15	----	2.89
F'east Indxd Expt May 16	£96.83	98.979	----	2.22
Funds in Court*				
Capital May 1	508.22	566.92xd	----	2.42
Gross May 1	190.86	192.40	----	9.62
High Yield May 1	297.94	300.55	----	6.88
* Restricted to monies under Court control				
Henderson Unit Trust Management Ltd				
Pensions Mngd	51.58	52.66xd	-0.06	3.79
INVESCO MIM Management Ltd				
Exempt Funds				
Intl Mngd P'Folio	1188.8	1288.0	----	-
Mngd Pens (Accd)	68.2	72.6	----	-
Lazard Brothers & Co. Ltd				
Property Jan 3	£2560.0	2675.0	----	6.00
Inc Crh Prp Apr 16	£1325.0	1460.0	----	7.20
Lazard Investors Ltd				

	Bid Price	Offer Price	+ or -	Yield Gross
Assicurazioni GENERALI SpA				
117 Fenchurch St, London EC3M 5DY 071-488 0733				
Hambro Generali UK Eqk.	142.1	149.6		-
Hambro Generali Ppty	142.7	150.3		-
Hambros Canadian	104.9	110.5	----	-
Hambros Equity Inc	136.0	143.2	----	-
Hambros European	150.6	158.6		-
Hambros High Income	151.4	159.4	----	-
Hambros Jap & Far East	140.1	147.5		-
Hambros Nth American	158.6	167.0	----	-
Hambros Scandinavian	163.5	172.2		-
Hambros Smaller Cos	144.6	152.3		-

	Bid Price	Offer Price	+ or -	Yield Gross
Legal & General (Unit Pensions) Ltd				
Kingswood House, Kingswood, Tadworth, Surrey 0737 370370				
Ex Bldg Soc Lddd	153.7	161.8		-
Do Accum	191.2	201.3		-
Exempt Cash Init	274.7	289.2	+0.1	-
Do Accum	410.7	451.4	+0.1	-
Exempt Eqty Init	844.0	888.5	-0.5	-
Do Accum	1323.4	1393.1	-0.8	-
Exempt Euro Init	167.5	176.4	+0.7	-
Do Accum	202.8	212.7	+0.8	-

	Bid Price	Offer Price	+ or -	Yield Gross
Merchant Investors Assurance Co Ltd – Contd.				
MI Baring Eastern	147.0	154.7	+0.1	-
MI Fidelity Fd	145.7	153.3		-
MI Fid American	146.4	154.1	+1.2	-
MI Fid European	204.5	215.2	+0.3	-
MI Fid Int Spec Sits	183.8	192.6		-
MI Fid Japan	132.8	139.7	+0.1	-
MI Fid Pacific	164.9	173.5	-0.2	-
MI Fidelity UK	149.6	157.4	-0.3	-
MI Fram Inc & Growth	196.8	207.1	+0.5	-
MI Fram Intl Growth	169.5	178.4	-2.8	-

INSURANCES

OTHER UK UNIT TRUSTS

Continued on next page

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N & P Life Assurance Ltd

6-7 Bedford Row, London, WC1R 4UJ 071-430 2348

	Bid Price	Offer Price	+ or -	Yield Gross
Life Managed Fd	104 7	110 2	+0 2	-
Pension Managed Fd	102.2	107.6	+0.1	-
Life Deposit Fd	106 8	112 5	+0.1	-
Pension Deposit Fd	111.8	117 8	+0.1	-

National Financial Management Corp PLC

72 Gatehouse Rd, Aylesbury, HP19 3XJ 0296 395539

	Bid Price	Offer Price	+ or -	Yield Gross
Life Funds				
Managed Cautionary	106 6	119 4	....	-
Managed Growth	134 8	148.3	-0.1	-
Managed Opportunity	136.2	150 2	-0 3	-
NFMC Target Financial	99.4	107.0	+0.2	-
Pension Funds				
Managed Cautionary	118 9	130	+0 1	-
Managed Growth	142 4	156 4	-0 3	-
Managed Opportunity	136.9	150.7	-0.5	-
NFMC Target Mngd Pens	1474.3	1602 6	+3	-

National Mutual Life

The Priory, Priory Pk, Hitchin, SG5 2DW 0462 422422

	Bid Price	Offer Price	+ or -	Yield Gross
Harvester Pension Funds				
Managed	159 6	168 :	-0.1	-
UK Equity	163.1	171.7	-1 7	-
Overseas Equity	133.8	140.9	-0.7	-
Fixed Interest	143.5	151.1	+0.5	-
Property	130.8	137 7	+1 0	-
Index Linked	147.6	155 4	-0 3	-

Prosperity Life Assurance Ltd

1 Sessions Hse Sq, Maidstone ME14 1XX 0622 690555

	Bid Price	Offer Price	+ or -	Yield Gross
Initial Equity	151.5	160.0	....	-
Accum Equity	216.0	228.0	-	-
Accum Managed	224.5	236.5	....	-
Accum Five Star	168 5	178.0	-0.5	-
Accum World	121.5	128.0	-0.5	-
Accum Lifetime	109.7	109.7	-0.2	-
Pens Acc Equity	231 0	246.0	...	-
Pens Acc Managed	280.0	295.0	...	-
Pens Acc Intl	210.0	221.5	+0.5	-
Pens Acc Deposit	198 0	208.5	...	-
Pens Acc Five Star	184.3	195.0	-1.0	-

Providence Capital Life Assc. Co Ltd

2 Bartley Way, Hook, Hants RG27 9XA 0256 768888

	Bid Price	Offer Price	+ or -	Yield Gross
UK Equity Acc	225 0	237.4	-0 9	-
UK Fixed Int Acc	171 4	180.9	+0.1	-
Intl Equities Acc	178.6	188.5	+0 6	-
UK Managed Acc	173.1	182.5	-0.5	-
Property Acc	225.5	237.9	..	-
Money Acc	128.6	135 7	....	-
Special Market Acc	140 7	148.5	-0.3	-
Japan Equity Acc	101 9	109.6	-0.9	-
North American Acc	102 9	108.6	-0 7	-
Pacific Acc	96 7	102.1	-0.9	-
Technology Acc	122.1	128.8	-1.1	-
Nat Resources Acc	55 3	58.6	-0 8	-

Royal Heritage Life Assurance Ltd—Contd.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)

OFFSHORE INSURANCES

MANAGEMENT SERVICES

FT MANAGED FUNDS SERVICE

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	Bid Price	Offer Price	+ or -	Yield Gross
U.S. Treasury Securities Fund Ltd				
Short Term Shares	$761.37		----	-
Fixed Income Shares	$884.39		----	-
Yamaichi Capital Mangmt (Guernsey) Ltd				
Japan Meta Growth	$10.70		+0.02	-
Yamaichi ISS Fund	$7.96		+0.02	-
Yamaichi CB Plus Fund	$8.40		+0.02	-
Thai Inv Fund	$10.85		----	-

IRELAND (SIB RECOGNISED)

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
GAM Fund Management Ltd (n)						
29 Kildare Street, Dublin 010 353 1760 630						
GAM Universal US $ Acc			$- 109.74		----	-
GAM Universal US $ Inc			$- 109.74		----	-
GAM Universal DM Acc			DM- 116.47		----	-
GAM Universal DM Inc			DM- 116.67		----	-
MI Global Asset Mngmt Co Ltd "MI Trusts"						
MI Global Dollar			$- 0.99	1.06	----	-

IRELAND (REGULATED)(**)

	Bid Price	Offer Price	+ or -	Yield Gross
Bank of Ireland Unit Managers Ltd				
Global Scsp	59.76	10.06	----	-
European Bond	[illegible]	[illegible]	----	-

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Hill Samuel Fund Mgrs—Contd.						
International Currency Fund						
Sterling Managed	5½	26.12	26.12	27.64	+0.02	-
US Dollar Managed	5½	29.51	29.51	31.23	+0.01	-
Sterling 4	0	24.93	24.93	24.93	+0.01	11.46
US Dollar 4	0	37.92	37.92	37.92	----	4.75
Deutschmark 4	0	59.92	59.92	59.92	+0.01	7.67
Japanese Yen 4	0	4.842	4.842	4.842	----	5.90
Swiss Franc 4	0	46.66	46.66	46.66	+0.01	6.63
Irish Punts 4	0	22.14	22.14	22.14	----	6.47
INVESCO MIM International (Jersey) Ltd						
PO Box 271, St Helier, Jersey 0534 73114						
Jersey Gilt (2)	5¼	[illegible]	0.1681	0.1771	[illegible]	9.32
Lloyds Bank (CI) U/T Mgrs.						
PO Box 195, St Helier, Jersey 0534 27561						
Lloyds Tst. Gilt	2½	9.386	9.402	9.642	[illegible]	11.19
Dealing daily						
Midland Bank Fund Managers (Jersey) Ltd						
PO Box 26, St Helier, Jersey 0534 606000						
Intl Circuit Portfolio	6	100.96	100.96	107.04	-0.23	1.64
Gilt	3	92.19	92.19	95.07	+0.27	10.52
For MIM see INVESCO MIM						
Royal Trust Jsy Fd Mngt Ltd (1400)F						
PO Box 428, St Helier, Jersey 0534 76077						
Govt Secs Fd	4	55.95	55.95	58.44	-0.14	9.58
TSB Trust Funds (CI)						
PO Box 538, St Helier, Jersey 0534 73494						
TSB Offshore Investment Fund Ltd						
Stg Deposit Class	3	102.94	102.94	106.03	+0.07	11.60
Gilt & Fixed Interest	3	101.96	101.96	105.00	+0.33	11.63
Blue Chip & Int Edged	5	48.82	48.82	52.03	+0.01	5.57
International Bond	5	109.51	109.51	115.01	-0.77	7.52
UK Equity	5	109.75	109.75	119.37	-0.24	1.62
International Equity	5	107.74	107.74	114.86	+0.06	0.43
Far Eastern	5	98.48	98.48	105.48	-0.25	0.00

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar up on economic hopes

THE DOLLAR improved after Mr Robert Mosbacher, US commerce secretary, told a conference in Kansas City that he believes the US recession has bottomed ont and that tbe economy may begin to turn round during the summer.

He added that the Federal Reserve should cut its discount rate again to boost the economy, but the implications of Mr Mosbacher's call for a further reduction in US rates had no adverse impact on the dollar.

In New York the Fed refrained from operations on the money market, as Federal funds traded at 5 11/16 per cent, slightly below the assumed target rate of 5¾ per cent.

Trading was generally quiet on the foreign exchanges, lacking fresh economic news, with tbe shock waves from last week's decision by Sweden to end the krona's to link to a dollar weighted basket gradually fading away.

At the London close the dollar had improved to DM1.7215 from DM1.7115; to Y138.00 from Y137.40; to SFr1.4595 from SFr1.4480; and to FFr5.8450 from FFr5.8075. On Bank of England figures the dollar's index rose to 66.1 from 65.8.

Sterling replaced the Italian lira as the second strongest member of tbe European exchange rate mechanism, according to figures from the European Commission. The pound was little changed however, apart from weakening against tha dollar in line with other ERM currencies.

A fall in UK gross domestic product for the third successive quarter had virtually no impact. A decline of 0.6 per cent in the first quarter of 1991 resulted in a year-on-year fall of 2.5 per cent. This was in line with expectations, leaving the market to wait for to-day's UK trade figures.

A visible trade deficit of around £800m has been forecast for April, with invisible transactions reducing this figure by about £500m, to give e current eccount shortfall of £300m.

Tuesday's comments by Mr John Major, the UK prime minister, were shrugged off by the pound. He told guests et a CBI dinner that there will be a secure but not dramatic recovery in the British economy in the second half of this year. The prime minister refused to be drawn on the timing of the next cut in UK bank base rates, but repeated that fighting inflation is his top priority.

Sterling fell 1 cent to $1.7265. It also eased to Y238.25 from Y238.50, but was unchanged at DM2.9725, while rising to FFr10.0925 from FFr10.0850 and to SFr2.5200 from SFr2.5150. The pound's index lost 0.1 to 91.9.

The Spanieb peeeta remained the strongest ERM currency, hovering around its ceiling against the weakest placed French franc. This led to speculation that the Bank of Spain may cut its money market intervention rate, the main instrument of monetary policy, from 12¾ per cent at today's repurchase agreement tender. The last reduction was on May 16.

£ IN NEW YORK

May 22	Latest	Previous Close
£ Spot	1.7250-1.7260	1.7370-1.7380
1 month	0.87-0.85pm	0.90-0.88pm
3 months	2.42-2.39pm	2.32-2.29pm
12 months	7.02-6.92pm	6.98-6.88pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	May 22	Previous
8.30 am	92.0	91.7
9.00 am	92.1	91.7
10.00 am	92.0	91.8
11.00 am	92.0	92.0
Noon	92.1	92.0
1.00 pm	92.0	92.0
2.00 pm	92.0	92.0
3.00 pm	92.0	91.9
4.00 pm	91.9	92.0

CURRENCY MOVEMENTS

May 22	Bank of England Index	Morgan** Guaranty Changes %
Sterling	91.9	-19.6
U.S Dollar	66.1	-13.0
Canadian Dollar	105.4	+2.5
Austrian Schilling	108.5	+11.0
Belgian Franc	110.1	-2.9
Danish Krone	108.4	+3.3
D-Mark	116.2	+23.1
Swiss Franc	112.2	+21.3
Dutch Guilder	112.8	+15.0
French Franc	101.8	-13.8
Lira	98.6	-19.8
Yen	135.7	+67.7

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100). **Rates are for May.21

CURRENCY RATES

May 22	Bank ‡ rate %	Special * Drawing Rights	European † Currency Unit
Sterling	-	0.776335	0.692440
U.S Dollar	6.00	1.34500	1.20000
Canadian $	9.22	1.54487	1.37820
Austrian Sch	7	16.2261	14.4864
Belgian Franc	10.50	47.5693	42.3600
Danish Krone	9	8.81984	7.87559
D-Mark	6.50	2.30762	2.05896
Dutch Guilder	7.75	2.59773	2.31948
French Franc	10¼	7.83463	6.98879
Italian Lira	11½	1713.87	1528.50
Japanese Yen	6	185.946	165.240
Norway Krone	8	9.00747	8.01119
Spanish Peseta	-	142.813	127.584
Swedish Krona	10.00	N/A	7.38239
Swiss Franc	6.00	1.95227	1.74420
Greek Drach	19	252.960	225.576
Irish Punt	-	0.861245	0.768836

‡ Bank rate refers to central bank discount rates. These are not quoted by the UK, Spain and Ireland. † European Commission Calculations. * All SDR rates are for May.21

OTHER CURRENCIES

May 22	£	$
Argentina	17057.8 - 17075.1	9860.00 - 9870.00
Australia	2.2345 - 2.2365	1.2895 - 1.2905
Brazil	476.40 - 477.25	275.40 - 275.70
Finland	6.9835 - 6.9970	4.0310 - 4.0340
Greece	322.00 - 328.45	185.80 - 189.55
Hong Kong	13.4945 - 13.5080	7.7865 - 7.7885
Iran	119.10*	68.00*
Korea(Sth)	1249.70 - 1269.90	723.00 - 728.80
Kuwait	N/A	N/A
Luxembourg	61.15 - 61.25	35.40 - 35.50
Malaysia	4.7770 - 4.7855	2.7550 - 2.7570
Mexico	5167.50 - 5187.85	2987.00 - 2997.00
N.Zealand	2.9450 - 2.9500	1.6990 - 1.7010
Saudi Ar	6.4850 - 6.4975	3.7490 - 3.7510
Singapore	3.0700 - 3.0770	1.7700 - 1.7720
S.Af (Cm)	4.8520 - 4.8640	2.8020 - 2.8035
S.Af (Fn)	5.6355 - 5.7295	3.2520 - 3.3060
Taiwan	47.30 - 47.40	27.30 - 27.35
U.A.E.	6.3455 - 6.3670	3.6720 - 3.6740

* Selling rate

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu May 22	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator
Spanish Peseta	133.631	127.584	-4.53	6.16	79
Sterling	0.696904	0.692440	-0.64	2.01	11
Italian Lira	1538.24	1528.50	-0.63	2.00	39
Belgian Franc	42.4032	42.3600	-0.10	1.46	12
Dutch Guilder	2.31643	2.31948	0.13	1.23	1
D-Mark	2.05586	2.05896	0.15	1.21	0
Irish Punt	0.767417	0.768836	0.18	1.17	-2
Danish Krone	7.84195	7.87559	0.43	0.93	-13
French Franc	6.89509	6.98879	1.36	0.00	-66

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
Adjustment calculated by Financial Times.

POUND SPOT - FORWARD AGAINST THE POUND

May 22	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.7255 - 1.7350	1.7260 - 1.7270	0.87-0.85cpm	5.98	2.39-2.36pm	5.50
Canada	1.9815 - 1.9945	1.9825 - 1.9835	0.49-0.40cpm	2.69	1.33-1.20pm	2.55
Netherlands	3.3390 - 3.3545	3.3425 - 3.3525	⅞-⅝cpm	2.91	2¼-2pm	2.46
Belgium	61.05 - 61.35	61.15 - 61.25	18-13cpm	3.04	45-33pm	2.55
Denmark	11.3470 - 11.3900	11.3675 - 11.3775	2½-1¾orepm	2.24	6½-5¼pm	2.07
Ireland	1.1100 - 1.1115	1.1105 - 1.1115	0.20-0.15cpm	1.89	0.50-0.40pm	1.62
Germany	2.9695 - 2.9775	2.9700 - 2.9750	¾-⅝pfpm	2.78	1⅞-1¾pm	2.44
Portugal	258.30 - 259.80	258.50 - 259.50	61-33cpm	2.18	26-20pm	0.42
Spain	183.75 - 184.60	183.95 - 184.25	20-25cdis	-1.47	77-88dis	-1.79
Italy	2203.75 - 2211.25	2206.00 - 2207.00	2-¾lirepm	0.78	3-⅞pm	0.35
Norway	11.5450 - 11.6000	11.5625 - 11.5725	2¼-1⅝orepm	1.82	5-3⅝pm	1.49
France	10.0700 - 10.1100	10.0875 - 10.0975	2¾-2¼cpm	2.68	6-5⅞pm	2.35
Sweden	10.6400 - 10.6850	10.6650 - 10.6750	⅞-⅛orepm	0.56	1⅞-⅞pm	0.33
Japan	237.75 - 239.00	237.75 - 238.85	⅞-⅞ypm	4.09	2¼-2pm	3.57
Austria	20.90 - 21.00	20.91 - 20.94	5⅞-4¼gropm	2.76	13¼-11¼pm	2.33
Switzerland	2.5150 - 2.5250	2.5150 - 2.5250	⅞-⅝cpm	3.87	2¼-2pm	3.27
Ecu	1.4425 - 1.4500	1.4475 - 1.4485	0.26-0.21cpm	1.95	0.67-0.60pm	1.75

Commercial rates taken towards the end of London trading. Six-month forward dollar 4.17-4.12cpm, 12 Month 7.00-6.90pm

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

May 22	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.7255 - 1.7350	1.7260 - 1.7270	0.87-0.85cpm	5.98	2.39-2.36pm	5.50
Ireland†	1.5520 - 1.5620	1.5640 - 1.5650	0.59-0.54cpm	4.36	1.54-1.44pm	3.83
Canada	1.1480 - 1.1495	1.1485 - 1.1495	0.30-0.33cdis	-3.29	0.83-0.88dis	-2.98
Netherlands	1.9285 - 1.9425	1.9390 - 1.9400	0.51-0.54cdis	-3.25	1.47-1.52dis	-3.08
Belgium	35.25 - 35.50	35.40 - 35.50	7.50-9.50cdis	-2.88	23.00-29.00dis	-2.93
Denmark	6.5520 - 6.5900	6.5850 - 6.5900	1.90-2.20oredis	-3.73	5.40-6.00dis	-3.46
Germany	1.7110 - 1.7255	1.7210 - 1.7220	0.43-0.45pfdis	-3.07	1.29-1.32dis	-3.03
Portugal	149.60 - 150.55	150.10 - 150.20	57-67cdis	-4.96	195-225dis	-5.99
Spain	106.10 - 106.75	106.65 - 106.75	58-63cdis	-6.80	170-177dis	-6.50
Italy	1271.25 - 1279.50	1277.75 - 1278.25	5.30-5.80liredis	-5.21	16.00-17.00dis	-5.16
Norway	6.6625 - 6.7050	6.6975 - 6.7025	2.15-2.45oredis	-4.12	6.50-7.10dis	-4.06
France	5.8100 - 5.8550	5.8425 - 5.8475	1.58-1.63cdis	-3.30	4.52-4.62dis	-3.13
Sweden	6.1410 - 6.1825	6.1775 - 6.1825	2.60-2.87oredis	-5.31	7.85-8.30dis	-5.23
Japan	137.30 - 138.20	137.95 - 138.05	0.22-0.24ydis	-2.00	0.61-0.64dis	-1.81
Austria	12.0525 - 12.0950	12.0875 - 12.0925	3.40-3.85grodis	-3.60	9.30-10.50dis	-3.28
Switzerland	1.4495 - 1.4610	1.4590 - 1.4600	0.27-0.29cdis	-2.30	0.76-0.78dis	-2.11
Ecu	1.1920 - 1.1990	1.1940 - 1.1950	0.42-0.40cpm	4.12	1.13-1.03pm	3.62

Commercial rates taken towards the end of London trading. † UK, Ireland and ECU are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

EURO-CURRENCY INTEREST RATES

May 22	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	11 7/8 - 11 13/16	11 7/8 - 11 13/16	11 7/8 - 11 13/16	11½ - 11 7/16	11 3/8 - 11¼	11 1/16 - 11
US Dollar	5 15/16 - 5 13/16	5⅞ - 5¾	5 15/16 - 5 13/16	6 1/16 - 5 15/16	6 3/16 - 6 1/16	6⅝ - 6½
Can. Dollar	8⅝ - 8⅜	8⅝ - 8⅜	8¾ - 8½	8¾ - 8½	8¾ - 8⅝	9⅛ - 8⅞
Dutch Guilder	9⅛ - 9	9⅛ - 9	9 1/16 - 8 15/16	9 1/16 - 8 15/16	9⅛ - 9	9⅛ - 9
Swiss Franc	8⅜ - 8⅛	8⅜ - 8⅛	8⅜ - 8¼	8⅜ - 8¼	8⅛ - 8	7 13/16 - 7 11/16
D-Mark	8⅝ - 8½	8 13/16 - 8⅞	8⅞ - 8¾	9 - 8⅞	9 1/16 - 8 15/16	9⅛ - 9
French Franc	9⅛ - 9	9⅛ - 9	9⅛ - 9	9⅛ - 9	9⅛ - 9	9⅜ - 9¼
Italian Lira	12 - 10	11¼ - 10¾	11¼ - 10⅝	11¼ - 10¾	11¼ - 10⅞	11 3/16 - 11 1/16
Belgian Franc	8 15/16 - 8 13/16	8 15/16 - 8 13/16	9 - 8⅞	9⅛ - 9	9¼ - 9⅛	9⅜ - 9¼
Yen	8 - 7 13/16	8 - 7 13/16	7 13/16 - 7⅝	7 13/16 - 7⅝	7⅞ - 7⅝	7⅛ - 7⅞
Danish Krone	9⅞ - 9½	9⅞ - 9½	9⅝ - 9⅜	9⅝ - 9⅜	9⅝ - 9⅜	9⅝ - 9⅜
Asian $Sing	6 - 5⅞	6 - 5⅞	6 - 5⅞	6 1/16 - 5 15/16	6¼ - 6⅛	6⅝ - 6½

Long term Eurodollars: two years 7⅞-7¾ per cent; three years 7⅞-7¾ per cent; four years 8⅛-8 per cent; five years 8 5/16-8 3/16 per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

May.22	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C$	B Fr.	ECU
£	1	1.726	2.972	238.2	10.09	2.520	3.347	2206	1.983	61.20	1.448
$	0.579	1	1.722	138.0	5.846	1.460	1.939	1278	1.149	35.46	0.839
DM	0.336	0.581	1	80.15	3.395	0.848	1.126	742.3	0.667	20.59	0.487
YEN	4.198	7.246	12.48	1000.	42.36	10.58	14.05	9261	8.325	256.9	6.079
F Fr.	0.991	1.711	2.945	236.1	10.	2.498	3.317	2186	1.965	60.65	1.435
S Fr.	0.397	0.685	1.179	94.52	4.004	1	1.328	875.4	0.787	24.29	0.575
H Fl.	0.299	0.516	0.888	71.17	3.015	0.753	1	659.1	0.592	18.29	0.433
Lira	0.453	0.782	1.347	108.0	4.574	1.142	1.517	1000.	0.899	27.74	0.656
C$	0.504	0.870	1.499	120.1	5.088	1.271	1.688	1112	1	30.86	0.730
B Fr.	1.634	2.820	4.856	389.2	16.49	4.118	5.469	3605	3.240	100.	2.366
ECU	0.691	1.192	2.052	164.5	6.968	1.740	2.311	1523	1.369	42.27	1

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES AND OPTIONS

LIFFE LONG GILT FUTURES OPTIONS [illegible]

LIFFE US TREASURY BOND FUTURES OPTIONS [illegible]

LIFFE BUND FUTURES OPTIONS [illegible]

LIFFE EURODOLLAR OPTIONS [illegible]

LIFFE SHORT STERLING OPTIONS [illegible]

LONDON (LIFFE)

20-YEAR 9% NOTIONAL GILT [illegible]

US TREASURY BONDS 8% [illegible]

6% NOTIONAL GERMAN GOVT. BOND [illegible]

6% NOTIONAL LONG TERM JAPANESE GOVT. BOND [illegible]

9% NOTIONAL ECU BOND [illegible]

THREE MONTH STERLING [illegible]

THREE MONTH EURODOLLAR [illegible]

THREE MONTH EUROMARK [illegible]

THREE MONTH ECU [illegible]

FT-SE 100 INDEX £25 per full index point

	Close	High	Low	Prev.
Jun	2473.0	2506.0	2470.0	2490.0
Sep	2514.5	2541.0	2522.0	2531.5
Dec	2554.0			2572.0

EURO SWISS FRANC [illegible]

FT FOREIGN EXCHANGE RATES

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.7265	1.7179	1.7028	1.6851	1.6570

IMM-STERLING $ per £

	Latest	High	Low	Prev.
Jun	1.7230	1.7270	1.7220	1.7290
Sep	1.7020	1.7046	1.7002	1.7076
Dec	-	-	1.6850	1.6906

CHICAGO

U.S. TREASURY BONDS (CBT) 8% [illegible]

U.S. TREASURY BILLS (IMM) [illegible]

SWISS FRANC (IMM) [illegible]

PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per £1)

Strike Price	Calls				Puts			
1.625	10.50	10.50	10.50	10.51	0.03	0.38	1.00	1.54
1.650	8.00	8.02	8.30	8.34	0.16	0.75	1.57	2.30
1.675	5.62	5.93	6.32	6.51	0.42	1.33	2.39	3.16
1.700	3.60	4.14	4.66	4.98	1.02	2.19	3.36	4.22
1.725	2.07	2.72	3.34	3.71	2.01	3.32	4.66	5.59
1.750	1.07	1.76	2.38	2.70	3.47	4.87	6.23	7.18
1.775	0.47	1.07	1.61	1.97	5.40	6.66	7.95	8.89

Previous day's open int: Calls 404,940 Puts 288,765 (All currencies)
Previous day's volume: Calls 9,853 Puts 9,631 (All currencies)

JAPANESE YEN (IMM) [illegible]

DEUTSCHE MARK (IMM) [illegible]

THREE-MONTH EURODOLLAR (IMM) [illegible]

STANDARD & POORS 500 INDEX [illegible]

■ Data for the Matif tables were not available for this edition.

BASE LENDING RATES

	%		%		%
ABN Bank	12	Comm. Bk. of London Plc	12	McDonnell Douglas Bak.	12
Adam & Company	12	Co-operative Bank	12	Midland Bank	12
Allied Trust Bank	12	Coutts & Co	12	Mount Banking	12
AIB Bank	12	Cyprus Popular Bk	12	Nat. Bk. of Kuwait	13½
● Henry Ansbacher	12	Dunbar Bank PLC	12	NatWestminster	12
B & C Merchant Bank	12	Duncan Lawrie	12	Northern Bank Ltd	12
Bank of Baroda	12	Equatorial Bank plc	12	Nykredit Mortgage Bank	12½
Banco Bilbao Vizcaya	12	Exeter Bank Limited	12½	Provincial Bank PLC	14
Bank Credit & Comm	12	Financial & Gen. Bank	12	Roxburghe Bank Ltd.	13
Bank of Cyprus	12	First National Bank Plc.	15	Royal Bk of Scotland	12
Bank of Ireland	12	● Robert Fleming & Co.	12	● Smith & Williamson Secs.	12
Bank of India	12	Robert Fraser & Ptnrs.	12½	Standard Chartered	12
Bank of Scotland	12	Girobank	12	TSB	12
Banque Belge Ltd	12	● Guinness Mahon	12	Unibank plc	12
Barclays Bank	12	● Hambros Bank	12	● United Bk of Kuwait	12
Benchmark Bank	12	Hampshire Trust Plc	13½	United Mizrahi Bank	12½
Brit Bk of Mid East	12	Heritable & Gen Inv Bnk.	12	Unity Trust Bank Plc	12
● Brown Shipley	12	● Hill Samuel	12	Western Trust	12
CL Bank Nederland	12	C. Hoare & Co.	12	Westpac Bank Corp.	12
● Charterhouse Bank	12	Hongkong & Shanghai	12	Whiteaway Laidlaw	12
Citibank NA	12	● Leopold Joseph & Sons	12	Yorkshire Bank	12
City Merchants Bank	12	Lloyds Bank	12		
Clydesdale Bank	12	Meghraj Bank Ltd	12		

● Members of British Merchant Banking & Securities Houses Association.

MONEY MARKETS

London rates steady

INTEREST RATES were steady in London yesterday. Three-month sterling interbank continued to discount a cut of ½ point in bank base rates but there was no strong pressure for an early move, despite tbe weakness of the UK economy and suggestions that the British government needs to bring rates down to improve its recent poor showing in opinion polls.

Three-montb interbank was almost unchanged at 11 13/16-11 11/16 per cent; 12-montb money eased to 11⅛-11 from 11 3/16-11 1/16.

June short sterling futures opened firm at 88.77 on Liffe and after touching a peak of 88.79 closed at 88.76 compared with 88.75 previously.

There was a large shortage of day-to-day credit on the cash market. The Bank of England initially forecast a shortage of £1,200m, but revised this to £1,100m at noon and to £1,150m in the afternoon. Total help of £1,248m was provided.

In early operations the Bank of England bought £201m bank bills in band 1 et 11⅞ per cent. Before lunch another £218m bills were purchased, by way of £210m bank bills in band 1 et 11⅞ per cent and £8m bank bills in band 2 at 11 13/16 per cent.

In the afternoon £404m bills were bougbt, via £70m Treasury bills in band 1 at 11⅞ per cent; £329m bank bills in band 1 at 11⅞ per cent; and £5m bank bills in band 2 at 11 13/16 per cent. Late assistance of sround £425m was also provided.

Bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £1,608m, witb a risa in the note circulation absorbing £120m and bank balancea below target £15m. These outweighed exchequer transactions adding £540m to liquidity.

In Frankfurt call money fell to 8.60 from 8.65 par cent, despite the draining of a net DM4.3bn by tbe German Bundesbank at this week's securities repurcbase agreement tender.

The central bank accepted bids of DM8.0bn for 35-day money, at a fixed rate of 8.60 per cent, but this failed to completely offset an expiring facility worth DM12.3bn.

Conditions are expected to tigbten next Monday, wben banks have to pay for four-year Treasury notes, on offer by tender today.

In Brussels tbe Belgian Netional Bank left its seven-day advances rate at 8.75 per cent when setting tomorrow's fixed rate tender. This is the main instrument of Belgian monetary policy.

UK clearing bank base lending rate 12 per cent from April 12, 1991

FT LONDON INTERBANK FIXING

01.00 a.m. May.22 3 months US dollars		6 months US Dollars	
bid 5 15/16	offer 6 1/16	bid 6 1/16	offer 6 3/16

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK (Lunchtime)

Prime rate	8½
Broker loan rate	7½
Fed.funds	5 13/16
Fed.funds at intervention	-

Treasury Bills and Bonds

One month	5.05	Three year	7.14
Two month	5.51	Four year	7.34
Three month	5.63	Five year	7.70
Six month	5.90	Seven year	7.94
One year	6.14	10-year	8.05
Two year	6.82	30-year	8.26

May.22	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	8.55-8.65	8.75-8.90	8.80-8.95	8.85-9.00	8.90-9.05	9.00
Paris	9⅛-9¼	9-9⅛	-	9⅛-9¼	-	9.25
Zurich	7⅝-7⅞	7⅞-8⅛	-	8-8⅛	-	-
Amsterdam	8.87-9.00	8.98-9.03	-	8.90-9.05	-	-
Tokyo	7 13/16-7 11/16	7 13/16-7 11/16	-	7 13/16-7¾	-	-
Milan	10⅞-10⅞	11⅛-11⅜	-	11⅛-11⅜	-	-
Brussels	8.75-8.88	8 13/16-8 15/16	-	8 15/16-9	-	-
Dublin	10 13/16-10 15/16	10 13/16-10 15/16	10½-10⅝	10⅜-10½	10¼-10⅜	-

LONDON MONEY RATES

May 22	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	13	12 1/16	11 15/16	11 13/16	11 9/16	11 3/16
Interbank Bid	8	12 1/16	11 13/16	11 11/16	11 7/16	11 1/16
Sterling CDs	-	-	11⅞	11 13/16	11⅜	11⅛
Local Authority Deps.	12 1/16	12 1/16	11 13/16	11⅝	11¼	11 1/16
Local Authority Bonds	-	-	-	-	-	-
Discount Mkt Deps	12	12¼	11⅞	11¾	-	-
Company Deposits	-	-	11 15/16	11⅝	11 7/16	11⅛
Finance House Deposits	-	-	11 15/16	11 13/16	11⅜	11¼
Treasury Bills (Buy)	-	-	11⅝	11	10⅝	-
Bank Bills (Buy)	-	-	11⅝	11 1/16	10⅝	-
Fine Trade Bills (Buy)	-	-	-	-	-	-
Dollar CDs	-	-	5.90	5.95	6.08	6.45
SDR Linked Dep. Offer	-	-	7¾	7 13/16	7 13/16	7 13/16
SDR Linked Dep. Bid	-	-	7⅝	7 11/16	7 11/16	7 11/16
ECU Linked Dep. Offer	-	-	9 13/16	9⅝	9⅝	9½
ECU Linked Dep. Bid	-	-	9 11/16	9½	9½	9⅜

Treasury Bills (sell): one-month 11 13/16 per cent; three months 10⅞ per cent; six months 10½ per cent; Bank Bills (sell): one-month 11½ per cent; three months 11 per cent; Treasury Bills; Average tender rate of discount 10.8427 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day April 30, 1991. Agreed rates for period May 26, 1991 to June 25, 1991, Scheme I: 13.07 p.c., Schemes II & III: 13.32 p.c. Reference rate for period March 29, 1991 to April 30, 1991, Scheme IV&V: 12.024 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 12½ from May 1, 1991: Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 8½ per cent; one-three months 11 per cent; three-six months 10½ per cent; six-nine months 10 per cent; nine-twelve months 9½ per cent; Under £100,000 8½ per cent from April 15, 1991. Deposits withdrawn for cash 5 per cent.

MONEY MARKET FUNDS

Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

JOTTER PAD

CROSSWORD

No.7,550 Set by CINEPHILE

Eight solutions are one-word novel titles; their clues may be incomplete.

ACROSS

1, 5 The heart to proceed? (11)
4 What happens at noon is compensation (6)
8 Leave in confusion (7)
9 Hostile dog in hansom (7)
11 Dog's home as good as a castle, say? (10)
12 Girl helps them mature (4)
13 Puzzle for model (5)
14 Berry to cross (8)
16 Deprived of love? Kind uses will alter that (8)
18 Indicator to knowledge (5)
20 Star retiring at five years old? (4)
21 You sound like me in myself (10)
23 Church has nothing against dividing any fish (7)
24 Leave home by road with line of bars (7)
25 Cover for pious heathens (6)
26 Fisherman by degrees ninety? (6)

DOWN

1 Physician to compete on film (5)
2 Pretty girls are easy to catch (7)
3 Direction of waves and conflict in the dentist's? (9)
5 See 1 across
6 Spring arrival to be turned over? (3,4)
7 Trio's name available for the press (5,4)
10 Method used in Europe and Rural District Council (9)
13 Writer did wrong when climbing (9)
15 Song about half a day with name of legendary king (9)
17 Russian weeder (7)
19 Bird out of kelter around pole (7)
21 Fulcrum of four in vessel (6)
22 Beast of comparatively high temperature (5)

Solution to Puzzle No.7,549

WORLD STOCK MARKETS

AUSTRIA | FRANCE (continued) | GERMANY (continued) | NETHERLANDS | SWEDEN (continued)

BELGIUM/LUXEMBOURG | DENMARK | FINLAND | ITALY | NORWAY | SPAIN | SWITZERLAND | SOUTH AFRICA | JAPAN | AUSTRALIA | HONG KONG | MALAYSIA | SINGAPORE

CANADA

TORONTO

3:00 pm prices May 22

MONTREAL

3:00 pm prices May 22

Sales	Stock	High	Low	Close	Chng
6700	Can Util A	$19¼	19½	19½	+⅛
900	Can Util B	$20½	20½	20½	+½
2000	Canamax	43	43	43	
14300	Canlor	$25½	25¼	25½	+⅛
28600	Cara Op	$18	17⅞	17⅞	
9300	Carena Dev	$13½	13½	13⅝	
400	Cascades	445	445	445	-5
300	Celanese	$35¾	35½	35¾	-⅛
40000	Cntrl Cap	58¾	6	5	-⅛
2200	Claron Oil	$5¾	5½	5¾	
4000	Cont Fd A	465	465	465	-5
3600	Cominco	$23	22⅞	23	+⅛
7400	Jannock	u$17¾	17½	17½	
100	KerrAddis a	$18½	18½	18½	
6800	Labatt	$23⅛	23	23⅛	+⅛
84900	Lac Minls a	$9⅛	7⅞	7⅞	-⅛
1200	Lafarge x	$18½	18	18	-½
179200	Laidlaw A	$12¼	d11¾	11½	-⅞
105200	Laidlaw B	$12½	d11¼	11½	-¾
300	Laurent Bk	$18	18	18	
300	Laurent Gp	$7	7	7	
29200	Loewn Mar x	$9⅛	9½	9⅛	
84800	Ren'ssance	$14⅞			
15000	Repap Ent	$8¾			
3700	Rio Algom	$19¾			
900	Rogers A	$12			
4500	Rothmans	$55½			
463100	RoyalBkCan	$25⅞			
253700	RylTrustco	$16⅛			
3100	StLawrCm A	$14			
3000	Sceptre Re	335			
1800	ScottPaper	$20			

INDICES

NEW YORK

DOW JONES	May 21	May 20	May 17	May 16	1991 HIGH	1991 LOW	Since compilation HIGH	Since compilation LOW
♦Industrials	2906.08	2892.22	2886.63	2894.01	3004.46 (17/4)	2470.30 (9/1)	3004.46 (17/4/91)	41.22 (2/7/32)
Home Bonds	94.75	94.70	94.69	94.68	95.06 (9/5)	91.30 (16/1)	95.51 (9/2/87)	54.99 (1/10/81)
Transport	1129.06	1129.23	1143.34	1149.86	1202.57 (9/5)	894.30 (7/1)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	210.89	210.45	210.95	210.32	220.89 (16/4)	199.64 (16/1)	236.23 (2/1/90)	10.50 (8/4/32)

♦Day's High 2931.80 (2910.78) Low 2875.00 (2872.76)

STANDARD AND POOR'S

	May 21	May 20	May 17	May 16	1991 HIGH	1991 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	375.35	372.28	372.39	372.19	390.45 (17/4)	311.49 (9/1)	390.45 (17/4/91)	4.40 (1/6/32)
Industrials	447.28	443.52	443.33	443.23	463.23 (18/4)	364.90 (9/1)	463.23 (18/4/91)	3.62 (21/6/32)
Financial	29.34	29.06	29.06	29.04	31.58 (18/4)	21.96 (9/1)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	205.60	204.07	204.15	204.04	213.21 (17/4)	170.97 (9/1)	213.21 (17/4/91)	4.46 (25/4/42)
Amex Mkt. Value	359.13	358.16	358.01	358.25	373.40 (18/4)	296.72 (14/1)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	483.60	480.10	481.38	481.77	511.31 (17/4)	355.75 (14/1)	511.31 (17/4/91)	54.87 (31/10/72)

	May 10	May 0	Apr.26	year ago (approx.)
Dow Industrial Div. Yield	3.14	3.44	3.47	3.93

	May 15	May 8	May 1	year ago (approx.)
S & P industrial div. yield	2.86	2.78	2.78	2.98
S & P Ind. P/E ratio	18.97	18.53	18.57	15.49

NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Closing price	Change on day
USX-Marathon	2,258,600	25¼	- ⅛
Alcan Alum	6,222,700	19⅞	+ ⅛
Unifirst Inc	4,825,800	27⅝	...
Philip Morris	2,879,300	65⅞	+ 1⅛
Telefonos	2,532,800	27	- ⅛
Vigoro Co	2,298,200	14	...
RJ Nabisco	2,180,200	10⅝	- ⅛
Blockbuster	1,971,900	0⅛	- ⅛

TRADING ACTIVITY

† Volume (Millions)	May 21	May 20	May 17
New York	186.860	109.510	174.210
Amex	9.614	7.809	10.886
NASDAQ	166.461	125.392	146.200
Issues Traded	2,061	2,047	2,027
Rises	985	694	677
Falls	582	837	794
Unchanged	494	516	556
New Highs	62	39	37

CANADA TORONTO

Toronto indices based 1975 and Montreal Portfolio 4/1/... Utilities, Financial and Transportation. (c) Closed.

AUSTRALIA | AUSTRIA | BELGIUM | DENMARK | FINLAND | FRANCE | GERMANY | HONG KONG | IRELAND | ITALY | JAPAN | MALAYSIA | NETHERLANDS | NORWAY | PHILIPPINES | SINGAPORE | SOUTH AFRICA | SOUTH KOREA | SPAIN | SWEDEN | SWITZERLAND | TAIWAN | THAILAND | WORLD

					1991 HIGH
THAILAND Bangkok SET (30/4/75)	792.08	804.83	815.78	820.93	908.11 (19/4)
WORLD M.S. Capital Intl (1/1/70) (z)	506.2*	506.7	503.0	504.8*	529.2 (17/4)

**Saturday May 18: Taiwan Weighted Price 5932.26 Korea Comp Ex. 636...
& Subject to official recalculation. *Calculated at 1...
Base values of all indices are 100 except: BEL20 HEX General, ISEQ Overall and DAX - 1,000; JSE 26 Industrials - 2643 and Australia All Ordinary and Mining - 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Wednesday 22 May 1991

	Stocks Traded	Closing Prices	Change on day
Hitachi Zosen	23.8m	645	-4
Nisshin Steel	11.8m	741	+21
Japan Steel Works	10.7m	765	-5
Akai Electric	8.2m	1,100	-10
Nippon Steel	7.3m	463	-1
Fujikura	7.2m	1,070	+50
Mitsubishi Heavy	6.4m	752	+16
Chiyoda	5.0m	2,480	+40
Fuji Electric	4.6m	687	+7
Mitsui Shipbuilding	3.9m	626	+1

Price data supplied by Telekurs.

NOTES – Prices on this page are as quoted on the individual exchanges and are last traded prices. (u) unavailable. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

2:15 pm prices May 22

1991 High	1991 Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
15⅞	9¼	AAR Corp	0.40	0.04	12	278	13⅛	13	13	
18⅜	14½	A L Labs A	0.08	0.01	18	2	16⅝	16⅝	16⅝	
64¾	40⅞	AMP Inc	1.44	0.36	16	2335	46¾	47⅞	40⅝	+½
65⅞	44¼	AMR			16	1766	60¼	60¼	26⅝	+⅛
2⅝	1¼	ARX			2	57	1½	1½	1½	
46⅞	41½	ASA x	3.60	0.08	13	491	46¼	44⅞	46¼	+⅛
54	39¼	Abbott Lab	1.00	0.02	22	2286	52½	61⅞	62⅛	+⅛
13⅛	8⅝	Abitibi Pr	0.02	0.04	25	3	16¼	12½	16½	
11½	10⅜	ACM Gvt Is				306	11⅝	11¼	11¼	−⅛
9⅞	8¾	ACM GvOpp	1.01	0.11		113	8⅝	8¼	0¼	−⅛
9¼	8¼	ACM Gvt Sp	1.01	0.11		235	0⅛	0	0⅛	
11	8¾	ACM Gvt Se				187	10⅞	10¾	10⅞	+⅛
8¼	7⅝	ACM Man	1.01	0.12		427	8⅝	8	8	
12⅞	11⅞	ACM Managd	1.60	0.18		252	12⅝	12½	16⅝	
7¼	4¾	Acme Cleve	0.40	0.05	14	218	6¼	8¼	6⅛	−⅛
6	2½	Acme Elect			38	7	4	3⅞	4	
40	23¾	Acuson			29	516	34½	33⅝	33¾	−⅛
17⅞	14¼	Adams Exp x	0.40	0.03	8	109	17⅝	17½	17⅝	
36⅛	18⅝	Adobe12Pl	2.40	0.12		6	19¾	19¾	19¾	
9¼	7	Adobe Res			20	28	7⅞	7⅞	7⅞	−⅛
35⅛	16	Ad Micro				40	u35¼	34¾	35¼	+⅛
14¼	4⅝	Ad Micro P	3.36	0.23	14	1099	16⅛	12¼	13	+1
5¼	2¼	Advest Grp	0.16	0.04	5	29	4¼	4⅛	4¼	
49⅞	33⅞	Aetna Ll	2.76	0.02	7	2149	40	38¼	39⅝	+⅛
10⅝	6¾	Ahl A x	0.24	0.03	24	283	8¾	8⅝	8⅝	−⅛
18¾	12	Ahmanson x	0.08	0.05	6	832	17	16⅞	16⅞	+⅞
7⅞	2⅞	Aileen Inc			19	642	u7½	7	7⅛	+⅛
70⅝	51½	Air Pr Chm			15	365	67	65¾	66⅞	+¼
[illegible]										

- B -

[illegible]

- C -

[illegible]

- D -

[illegible]

- E -

[illegible]

- F -

[illegible]

- G -

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- H -

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- K -

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- L -

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مكتبة من الأصل

NYSE COMPOSITE PRICES

Continued from previous page

1991 High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
17½	13¾	RoxBorIe x	0.80	0.04	11	3	13½	13⅞	13¾	
7⅛	4	Russ Togs			1	14	4½	4⅜	4½	-⅛
28⅞	19¼	Russell Cp	0.32	0.01	16	441	29¼	22	22⅛	-⅛
19⅞	14	Ryder Syst x	0.60	0.03	21	1846	18	17¾	17⅞	-¼
26¼	16¼	Ryland Grp	0.60	0.03	29	304	20⅛	19½	19½	-⅛

- S -

1991 High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
28½	20⅛	S Anita Rt	2.06	0.08	16	17	25⅛	25⅝	25⅝	-⅛
15¼	11½	SCOR US Cp	0.24	0.02	6	130	14	13⅞	13⅞	-⅛

- T -

1991 High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High
16½	7	TCF Financ	0.40	0.03	8	08	14⅝
8⅝	8⅞	TCW Conv 6	0.84	0.11		158	8
43⅛	29⅞	TDK Corp A	0.60	0.02	30	9	39⅝
8¾	8⅝	7 I S Mtge	1.28	0.14	6	74	u6⅞
16⅞	9⅝	7JX Cos	0.46	0.06	16	401	17⅝
21	18½	TNP Enterp	1.65	0.08	12	08	19½
43	34⅞	TRW Inc	1.80	0.04	13	731	40
1½	⅞	TacomaBoat			1	27	⅞
24½	18⅛	Taiwan Fd				79	23⅝
8¼	4⅞	Talleyind	0.20	0.04	6	320	4⅞
11½	7	Talley Pf				13	7¾
59½	38⅛	Tambrands	1.20	0.02	22	325	54⅞
17⅞	9¼	Tandem			17	1969	14⅛

- X - Y - Z -

1991 High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
60⅛	36¼	Xerox	3.00	0.05	10	1028	58⅞	55½	38	+⅛
60½	43¾	Xerox4.125				z100	u61	61	50½	+½
27¾	14¾	Xtra 1.94 x				182	20¼	10¾	30⅛	+⅝
24⅞	14⅜	Xtra Corp x	0.72	0.05	11	382	27⅜	30⅝	21¾	+1⅝
23¼	27¾	Yankee Egy	1.60	0.07	12	17	u23¼	22⅞	20	-⅛
1½	⅞	Zapata			6	173	1⅜	1	1⅛	
9⅞	6⅛	ZenithElec			2	245	8⅜	6¼	8¼	
10¾	12	Zenith Nat	1.60	0.06	69	z160	16⅝	16⅝	16⅝	
8	4½	Zenix Inc A	0.87	0.15		95	6⅞	5⅞	5⅞	-¼
16⅜	16⅞	Zero Corp A	0.72	0.05	13	79	15	14¾	14⅜	-⅛
41⅝	29½	Zurn Ind	0.88	0.02	14	560	35⅝	34½	34⅝	-1
13½	10¾	Zweig Fund				253	12¾	12¼	12⅜	+¼
19	6⅛	Zweig Totl	1.60	0.11		747	u16	9¼	9⅞	

Price data supplied by Telekurs.

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

3:00 pm prices May 22

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
Pall Corp	0.44	56	1601	34⅛	34⅛	34⅜	+½
Pegasus G		7	135	11⅛	11	11⅛	+⅛
Pentrol		10	6	14⅞	14½	14⅞	+¼
Pet HP x	0.31	12	6	10¼	10¾	10⅜	
Phil LD	0.18	8	267	u21	20¾	20⅞	
Pitway A		11	17	27½	27¼	27¼	+¼
Ply Gem x	0.12	37	239	7	8⅞	6⅞	-⅛

NASDAQ NATIONAL MARKET

3:15 pm prices May 22

- X - Y - Z -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Xilinx		31	1080	92	27½	21¾	-¼
XL Data		13	516	6¼	6¼	6½	-¼
Xoma Corp		14	2030	27¾	30¼	27¼	
Yellow Fr	6.94	14	955	30⅛	30⅞	28	+⅛
York Rsch		26	1862	20¼	20	20¾	+¼
ZionsUtah	1.44	8	14	42¼	41¾	42¾	

AMERICA

Technology stocks firm as other equities idle

Wall Street

ALTHOUGH technology stocks bounced back from Tuesday's declines, the equity market idled just below opening values yesterday morning in moderate trading, *writes Patrick Harverson in New York.*

At 1 pm the Dow Jooee Industrial Average was oowo2.01 at 2,904.07. The broader-based Standard & Poor's 500 slumbered in similar fashion, gaining just 0.01 to 375.54 by 1 pm. The Nasdaq composite of over-the-counter issues, however, was in better form, rising 3.11 to 486.71. Turnover on the New York SE was 99m shares by 1 pm, while declining stocks outnumbered advancing stocks by 752 to 641.

In the absence of fresh ecooomic deta, and with bood prices little cbanged, the stock market lacked a firm direction yesterday, and the Dow appeared to be stuck in e narrow treding range between 2,860 and 2,920.

IBM, which fell late on Tuesday after ssveral analyets released negative comments on the stock, bounced back $2½ to $103⅞ on turnover of almost 1m shares. Other technology stocks were also firmer with Compaq up $⅞ at $37, Digital Equipment up $1¼ at $63⅞, and Hewlett-Packard $1⅞ higher at $49⅞.

Secondary technology issues moved in a similar fashion. Apple rose $½ to $45⅞ and Microsoft gained $3⅞ at $105⅛. Intel advanced $1⅞ to $48⅞ on *turnover of 3.1m shares after* the Oregon-based company said that its business outlook was still excellent, and that its second quarter results were likely to exceed analyets' expectations.

LA Gear rose in early trading on news that it had hired Merrill Lynch, the broking house, to explore options that include the possible sale of a substantial stake in the company. However, as profit-takers moved in, the stock fell back to $11⅞ down $¼.

Federal Express rose $⅞ to $38¼ after the company said that it was discussing the sale of its inland shipping and trucking divisions in Germany and Holland to a Dutch buyer. Blockbuster fell $¼ to $8¼ after the video-store chain confirmed that it will earn between 50 cents and 60 cents a share in 1991, but warned that it was too early to begin paying dividends to shareholders.

Among over-the-counter stocks, Rose'e Stores plummeted $⅜ to $2¼ on reports that several credit agencies had advised clients to halt shipments to the chain. Yesterday it reported a loss of 3 cents s share in the first quarter of 1991, against a gain of 11 cents a share a year earlier.

New Line Cinema, which is qnoted on the American Stock Exchange, fell $⅜ to $10⅞ on news that the movie production company will earn considerably lese from the second Teenage Mutant Ninja Turtle movie than it did on the first.

Canada

TORONTO stocks fell at midday in thin trading, the composite index closing 5.7 lower at 3,442.0. Declines led advances by 196 to 178 on volume of 12.5m shares.

Laidlaw B shares dropped C$1 to C$11⅞ on volume of 925,000 shares on continned concern over the clean-up costs at the company's Mercier, Quebec, hazardous waste site.

Bank shares continued to be among the market's best performers, rising after tbe remainder of Canada's big six banks cut their prime rates to 9.75 per cent to match the Bank of Montreal.

EUROPE

Deutsche Bank helps Frankfurt to 1991 high

AS the UK moved from confidence to gloom yesterday, international investors' attention moved to Germany which bas lagged behind most of Europe this year. However, there were domestic questions about the quality and the durability of Frankfurt's flurry, *writes Our Markets Staff.*

FRANKFURT saw remarkable performances from Deutsche Bank, chemicals, builders and cars as its key indices hit new bighs for 1991. Ths FAZ index rose 13.39 to 695.18 st midsession and the DAX closed 30.29 higher at 1,647.69.

Volume jumped from DM6.6bn to DM11.4bo with DM2.1bn of that in Deutsche, whicb rose DM13.60 to DM676.60 on hopes that it will disclose a *20 to 30* per cent jump in first quarter operating profits at today'e shareholders meeting. Banks and chemicals, where Bayer led with a DM8.70 rise to DM288.70, were also being bought for dividends which are about to be paid.

In construction, Bilfinger & Berger went ex rights and closed a net DM30 bigher at DM910, following a revision of Tuesday's closing price, and Philipp Holzmann ended DM53 hetter at DM1,525. After the close, economics minister Jürgen Möllemann said German companies will get 60 per cent of the contracts to build the first batch of homes for Soviet troops leaving east Germany.

In carmakers, Daimler rose DM10 to DM717.50 bnt Mercedes Holding, which owns 25.23 per cent of Daimler, put on DM12.50 or more than 2 per cent to DM577.50. Changes in tax law have fuelled speculation that group shareholdings will be rationalised, which could lead to Mercedes being bought ont. Volkswagen, the sector's underperformer, rose DM8.10 to DM374.50 and BMW, up more than 50 per cent this year, rose DM2 to DM563.50.

MILAN was lifted by Fiat's decision to maintain its dividend, which pleased its army of small domestic shareholders and the domestic funds. But another fall in Generali held the Comit index to a gain of 3.41 to 573.33, in volume estimated at little better than *Tuesday's paltry L101bn.*

Fiat closed up 3.4 per cent or L185 at L5,650. After the close, Fiat said it planned to close seven plants for five days at the end of June to reduce excess stock. Analysts warned that Fiat's decision to hold the dividend had nothing to do with fundamentals, since its forecast of an earnings recovery in the second half of 1991 was unrealistic. They noted that Fiat had not given a reason for its new share buy-back programme and, furthermore, a rights issue was possible.

Gensrali dropped L179 to L34,730. The stock has fallen 5.4 per cent since it announced its big rights issue last week.

STOCKHOLM steadied after Tuesday's 3.5 per cent rise. The Affärsvärlden General index eased 4.6 to 1,069.8 as volume fell to SKr382m from SKr816m.

Analysts said that, while the rise was mainly because of the krona's link with the Ecu, the market was also supported by hopes that the European Commission would let the Alfa Laval takeover go ahead. A decision is expected by August.

Electrolux free B shares fell SKr5 to SKr245 before its first-quarter report. After the close it revealed a 19 per cent drop in pre-tax profits.

PARIS ended near the day's low, depressed by Wall Street and futures-related activity. The CAC 40 index closed at 1,831.13, down 1.96, after a day's high of 1,846.07. Turnover fell to FFr2.2bn from FFr2.5bn.

Air Liquide was one of the few winners, rising FFr17 to FFr719. The company announced a contract, estimated to be worth up to FFr20m a year for more than 10 years, to supply helium to the Ariane 5 rocket programme.

Roussel Uclaf gained FFr240 or 5.9 per cent to FFr2,150. The company denied reports that it would close seven of its 10 European factories.

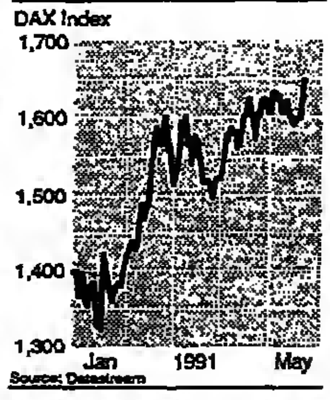
Big retailers fell after Prime Minister *Edith Cresson* suggested that large companies might no longer be allowed more time to pay for goods and services than smaller concerns. Carrefour dropped FFr50 or 2.5 per cent to FFr1,970.

MADRID eased on profit-taking but finished above the day's lows. The general index ended 0.78 down at 284.69 as turnover rose to Pta18bn from Pta13.8bn. In utilities, Sevillana gained Pta14 to Pta554 on heavy volume of 1.18m shares. The state-controlled Endesa was said to be seeking to raise its stake in Sevillana from 9.5 to 20 per cent.

AMSTERDAM was relieved that losses at KLM were not as big as expected. The CBS Tendency index closed 0.6 up at 93.9. KLM added Fl 1.30 or 2 per cent to Fl 27.10.

ZURICH rose 0.7 per cent in thin trading, the Crédit Suisse Stock Index closing 3.7 higher at 543.1. Union Bank gained SFr40 to SFr3,700 while, in chemicals, Sandoz rose SFr275 to SFr12,100.

Germany



Source: Datastream

FT-SE Eurotrack 100 - May 22							
Hourly changes							
Open	10 am	11 am	Noon	1 pm	2 pm	3 pm	Close
1130.44	1130.51	1130.65	1132.26	1132.91	1132.05	1132.65	1131.74
Day's High 1133.17				Day's Low 1129.57			
May 21	May 20	May 17	May 16	May 15			
1123.75	1120.04‡	1118.61	1112.68	1109.43			

Base value 1000 (26/10/90) ‡ Indicative

ASIA PACIFIC

Nikkei surrenders early rise on worries about earnings

Tokyo

SHARE PRICES lost early gains yesterday as earnings-related rumours spread in the afternoon. Sentiment was also depressed by an afternoon fall in the futures market, *writes Emiko Terazono in Tokyo.*

The Nikkei average closed down 82.55 at the day's low of 25,398.66. The index had risen steadily in the morning after the overnight rise on Wall Street and arbitrage-related buying, and bad hit a day's high of 25,768.52 at the start of the afternoon session.

Volume increased to 350m shares from 260m, rising above the 300m level for the first time since May 10. Traders attributed the increase to small-lot buying by *individuals* following recommendations by leading domestic brokerage houses. Gains led losses by a marginal 491 to 410, while 203 issues were *unchanged*. The Topix index lost 2.57 to 1,933.57, but in London the ISE/Nikkei 50 index put on 15.90 to 1,444.51.

Mr Peter Johnson st Baring *Securities said concern over* fundamentals continued to bang over the market, notably the slow recovery of the US economy and the Japanese central bank's unchanged stance on the discount rate. The large arbitrage positions on June futures contracts also worried market participants.

Shares fell in the afternoon on speculation about Sony's earnings, announced after the market closed. Once again high-technology stocks led the decline, with *Sony falling* Y230 to Y5,700. Pioneer Electronic weakened Y120 to Y4,070 and NEC Y20 to Y1,430. In contrast, TDK, which reported strong results on Tuesday, moved ahead Y170 to Y5,300.

The construction sector lost ground on rumours that a land speculator was in financial troohle. *Obayashi* retreated Y10 to Y1,160 and Shimizu shed Y20 to Y1,500.

Akai Electric finished Y10 down at Y1,100 on meeting profit-taking, after having traded actively in the morning on the company's improving business performance.

Japan Steel Works lost a net Y5 at Y768 after moving to a high for the year in the morning. Investors were attracted by thoughts that oil refinery plant orders could increase as refiners expand their facilities.

Maeda Road Construction, a leading road paving company recommended by Japanese brokerages, added Y60 at Y2,750 for its fifth atraight rise. Hitachi Zosen, the shipbuilder, was the day's most active stock on a buy recommendation by a leading Japanese securities house, but was finally Y4 off at Y645 on profit-taking.

Sumitomo Metal Mining improved Y10 to Y1,320 on *individual buying. The issue has* been strong recently on rumours that the company had discovered new gold deposits.

Shin Nippon Air Condition*ing Engineering put on* Y10 to Y4,310 on forecasts of a 54 per cent rise in pre-tax profits for the current year. Individuals and some financial institutions *sought the issue.*

In Osaka, the OSE average appreciated 48.16 to 28,122.55 on volums of 25.4m shares, against 20m previously. Kobe Cast Iron Works rose Y50 to Y1,110 on forecasts of growing sales of castings for machinery and manhole covers.

Roundup

MOST PACIFIC Rim markets showed a firmer trend yesterday. Bombay was closed as *India mourned the murder of* Mr Rajiv Gandhi, the former prime minister.

HONG KONG steadied after s weak opening, following Tuesday'a 2 per cent tumble and the news of s big rights issue. The Hang Seng index closed just 3.26 points lower at 3,826.62 and turnover slipped to HK$1.32bn *from* HK$1.43bn. Hopewell Holdings, relisted after Tuesdey's suspension, dropped 27½ cents to HK$4.02 after announcing a HK$5.64bn cash call the previous day.

AUSTRALIA was lifted by buying from London and a drop in the Australian dollar, but closed off the day's high. The All Ordinaries index added 14 points at one stage, before ending 5.3 up at 1,541.4 after turnover of A$430m, up from A$265m. Volume was boosted by the placement of Fosters Brewing Group's 105m shares in Goodman Fielder Wattie.

ANZ fell 14 cents to A$3.71 on reporting a *fall* in first-half profits of 59 per cent and a cut in interim dividend.

SEOUL returned from Tuesday's holiday to register its third snccessive decline, as Prime Minister Roh Jai Bong tendered his resignation to President Roh Tae Woo, after the violent anti-government demonstrations over the last four weeks. The composite index dipped 4.39 to 624.32 in thin turnover of Won75.3bn, down from Won84.7bn.

KUALA LUMPUR rose 1.5 per cent amid speculation that Malaysians could soon be allowed to use part of their provident funds to invest in *equities. There were also hopes* that other funds were increasing their weightings in the market. The composite index added 8.56 at 592.76 as turnover grew to M$150m from M$85m.

MANILA survived a bout of profit-taking during the final half-hour and kept most of the day's gains intact. Share prices rose *on speculation* of a new treaty on US military bases in the country. The composite index advanced 16.16 or 1.4 per cent to 1,178.37, a 17-month high, *in turnover of* 175m pesos, down from 191m.

TAIWAN gained in modest trading, boosted partly by the ending of student demonstra*tions. Growing export orders,* suggesting economic recovery, also encouraged investors. The weighted index ended at 6,168.9, up 26.69, in turnover of T$76.06bn, *against* T$60.95bn.

SINGAPORE's Straits Times Industrial index moved up 7.05 to 1,525.03 in turnover of S$117m, after S$95m.

SOUTH AFRICA

JOHANNESBURG's industrial index rose 34 to a record 3,581, bnoyed np by a continned *shortage of scrip. Steady bullion prices* kept gold shares on the boil: the all-gold index rose 28 to 1,199. The overall index added 36 to 3,117.

Cyprus gives up telephones for trading floor

Kerin Hope reports on developments in the trading of shares on the divided island

THE OFFER of a brandy sonr, tbe Cyprus national drink, is an established ritual at the monthly evening meetings of the island's unofficial stock exchange. At the weekly morning sessions, the atmosphere is just as convivial, but everyone sticks to orange juice.

Such informality is likely to disappear when the Cyprus Chamber of Commerce, the unofficial enpervisor of the bourse, opens a trading floor at its premises in Nicosia in September. The island'e dozen Greek Cypriot stockbrokers, who do most of their business over the telephone at present, will start trading there three times a week.

Mr Nondas Metaxas of the *Chamber of Commerce* says: "It was a choice between setting up a floor or introducing electronic trading right away. As full computerisation would be very expensive, we decided on a floor. It also has ths advantage of being a focus for developing public interest."

The Cyprus over-the-counter *market, with 36 listings,* enjoyed a record year in 1990 in spite of an inevitable decline as the effects of the Gulf crisis began to be felt. The Cisco all-*share index, issued weekly,* peaked at 318 in mid-August. It finished the year at 256.4, a 35 per cent increase from the end of 1989.

Market capitalisation, with three new flotations and seven rights issues by listed companies during the year, rose from C£274.7m ($580m) to C£472.9m *in 1990.* The banking and finance sector continued to dominate, accounting for 55 per cent of total capitalisation, boosted by rights issues from Popular Bank and Bank of Cyprus which raised C£25m and C£20m respectively. Tourism and manufacturing companies, with average annual turnover of C£10m ($20.8m), accounted for most of the remainder.

Total trading volume for 1990 was estimated at around C£25m, of which almost C£2m was registered at the Chamber of Commerce meetings. Volume has fluctuated markedly in this year'a sessions, but totalled over C£3m in the first four months of 1991.

Last weekend'e general election has had practically no effect on trading, except that last Friday's session was more sparsely attended than usual as people returned to their villages to vote.

After declining at the start of the year, the index jumped past the 280 mark at the end of the Gulf war. Last week it was down to 267.1, reflecting anxiety that a poor start to the tourist season – the island's main industry – will mean a sharp fall in economic growth this year.

None the less, at least one tourist investment company is planning to join the market this summer, with a C£4.5m equity flotation. As in the case of most recent issues, it will be designed to appeal to small investors, by far the majority of Cypriot shareholders, being offered through a series of calls.

Meanwhile, the Cyprus Investment and Securities Corporation (Cisco), an affiliate of the Bank of Cyprus, the island's largest bank, is launching a C£4m closed-end mutual fund. A 30 per cent tranche is on offer to foreign investors, after the central bank waived regulations restricting investment in Cypriot stocks to islanders.

Mr Socrates Solomides, Cisco's general manager, says: "We have had several inquiries from institutional investors abroad in the past few months. But legislation will have to be modernised before the market here can really expand."

A framework law for making the stock exchange official has been delayed in parliament for more than a year. President George Vassiliou now says that pushing it through is a government priority.

Exchange controls remain tight, however, while the Cyprus companies law dates back to 1948, when the island was under British rule, and is therefore badly in need of updating.

The island'e political problem – the 17-year *de facto* partition into separate Greek and Turkish Cypriot sectors – appears to weigh less on potential investors' minds than in the past.

The central bank is showing more readiness to make exceptions to the exchange control rules for individual applicants. It recently gave permission for Italcementi, the Italian cement producer, to buy 20 per cent of Vassiliko Cement, the larger of the two Greek Cypriot cement companies.

BUSINESS LAW

Route to US banking revolution

By Rhett Brandon, John Walker and Gary Rice

THE US Treasury Department recently presented to Congress a 317-pege bill that would implement the Bush administration's proposals for modernising the US financial system.

If enacted, the legislation would revolutionise US banking. Well-capitalised banking groups would be permitted to engage in virtually every type of financial activity in the US.

Commercial and industrial companies would be allowed to own US banks. Non-US banks that wished to engage in securities activities in America would have to adopt new structures for engaging in banking activities in the US.

The Treasury bill proposes a system of regulatory supervision and rewards and penalties based on the capital adequacy of the relevant insured bank. Banking organisations would be allowed to establish financial services bolding companies to engage, through subsidiaries, in banking and other permitted activities. As a general matter, no capital requirements will apply to financial services holding companies or companiee that own them; rather, the capital requirements will epply to federally insured banks.

Five capital "zones" would be established. Zone 1 applies to insured banks that have capital that is "significantly" in excese of the amount required by the Basle risk-based capital guidelines.

Zone 2 would apply to insured banks with capital meeting but not "significantly" exceeding the amount required by the Basle guidelines.

Zooe 3 would apply to insured banks not in compliance with epplicable capital guidelines, Zone 4 to those that are significantly below the guidelines and Zone 5 to those with a Tier 1 leverage ratio of 1.5 per cent or lower.

A financial services holding company would be permitted to engage in new financial activities, would benefit from simplified regulatory approval procedures and could be owned by a commercial or industrial company if its federally insured bank subsidiaries that account for 80 per cent or more of the assets of all its insured bank subsidiaries qualify as Zone 1 and the remainder qualify as Zone 2.

Other financial services holding companies will not be sligible for these benefits, although exceptions may be made for those very close to meeting the above standard.

The regulators would be authorised to require Zone 3 insured banks to restrict growth, dividends and activities, to raise capital, to limit executive compensation, to dismiss officers and directors and to divest affiliates.

Also, financial services holding companies and commercial or industrial companies that control such companies would be required themselves to meet bank capital requirements and to obtain approval of the regulators before paying dividends if one or more of their insured bank subsidiaries fall into Zone 3. In Zone 4, the restrictions that regulators have the discretion to apply to Zone 3 institutions become mandatory. Insured banks in Zone 5 generally will be sold or placed in receivership.

The Federal Reserve already uses capital requirements as the key criterion for acting on applications by banking organisations to engage in new activities. For example, only the most highly capitalised banking organisations are permitted to make large acquisitions or to engage in activities that are perceived to be risky, such as underwriting equity securities.

The "zone" system may be intended to remove some of the regulators' discretion in such decisions, but in practice that is unlikely to occur in light of the extent to which determinations regarding capital adequacy involve not only the calculation of capital ratios, but also judgments on such matters as reserve levels, asset quality and the risk posed by various activities.

The Federal Reserve now requires a non-US bank to meet the same capital adequacy standards that are imposed on US banking organisations that seek to engage in the same activities. These standards are applied to the non-US bank considered as a whole, although the regulators also require that the US operations of the non-US bank be in a generally satisfactory condition.

The Treasury bill would *require a non-US bank that* wished to engage in "new financial activities" to establish a financial services holding company (which may be the non-US bank itself) and to place all its US branch and agency operations into an insured US bank subsidiary.

The term, "new financial ectivities", includes underwriting and dealing in securities (other than US government securities), *even if the non-US* bank currently is authorised to engage in those activities.

A financial services holding company with Zone 1 and Zone *2 insured bank subsidiaries* will not have capital requirements directly applicable to it; rather, the capital requirements will apply only to the *subsidiary US banks.*

Thus, when a non-US bank seeks to engage in new financial activities in the United States, the regulators will *examine the capital of its US* bank subsidiaries, not the capital of the non-US bank.

For non-US banks with relatively weak risk-based capital *ratios, this may be preferable* to the current system but it would result in much greater importance being attached to the condition of the US banking operations of *all* non-US banks.

Non-US banks which engage in banking in America currently do so primarily through the use of branches and agencies. Although many non-US banks have also established bank subsidiaries in the US, primarily to engage in trust activities, and a *small number* of non-US banks have established retail banking networks, the great preponderance of banking assets held by non-US banks in the United States are held in US branches and agencies. US non-banking activities of these foreign banks are generally conducted through separate subsidiaries.

The Treasury bill would radically alter the existing framework for non-US banks that wished to underwrite and deal in equity or debt securities (other than government securities) in the US. Some non-US banks currently control US affiliates that engage in securities underwriting and dealing activities in America, either with the approval of the Federal Reserve or under the "grandfather" provisions applicable to non-US banks which were engaging in those activities before 1978.

The authority of such non-US banks to engage in such activities would terminate three years after the enactment of the Treasury bill.

In order to be able to continue to engage in these securities activities, each such non-US bank would be required to establish a financial services holding company, place all the banking operations of its US branches and agencies in insured bank subsidiaries of the financial *services holding company*, and obtain an authorisation from the federal regulators to engage in the securities activities through a broker-dealer *subsidiary of the financial services* holding company.

The proposal has a number of implications. Non-US banks would be required to allocate *some* of their capital specifically to their US banking activities now engaged in through US branches and agencies.

They would be required to *maintain* loan loss reserves in their US bank subsidiaries and to do so at levels that the US bank regulators deem appropriate. This will exacerbate existing conflicts between US bank examiners and non-US banks over how to assess credit quality, particularly with respect to loans by US offices of a non-US bank to US subsidiaries of such bank's foreign customers.

The Treasury bill proposes to eliminate the exemption that securities issued by US banks (and, by interpretation, US branches of non-US banks) now have from the registration requirements of the Securities Act of 1933.

An exemption would continue to be available for deposits (including certificates of deposit), bankers' acceptances and letters of credit that are *issued* in the "usual course of business". The intent is to narrow the scope of capital raising that can be dons by banks – including non-US banks – without Securities and Exchange Commission or federal bank regulatory review.

Also, US banks and US branches of non-US banks would no longer be exempt from the SEC's broker-dealer registration requirements unless their securities activities were limited to aweep *accounts*, trust activities, transactions effected in exempt securities (such as government securities and commercial paper), private placements and brokerage business that is not solicited and for which no commission is accepted.

If a US or non-US banking organisation intends to engage in activities beyond those permitted above, it would have to establish a separate affiliate under a financial services holding company for that purpose. It would not be permitted simply to register the bank or branch as a broker-dealer.

Mr Brandon and Mr Walker are partners and Mr Rice is an associate of the New York law firm of Simpson Thacher & Bartlett.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	TUESDAY MAY 21 1991								MONDAY MAY 20 1991					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1991 High	1991 Low	Year ago (approx)
Australia (72)	144.45	−0.3	123.33	125.46	128.54	123.84	+0.3	5.37	144.83	124.91	126.52	130.12	123.44	147.30	112.74	132.07
Austria (19)	198.64	−1.9	169.60	172.53	176.75	177.48	−0.8	1.49	202.56	174.70	176.96	181.98	177.99	222.37	167.00	235.52
Belgium (60)	137.32	+0.4	117.24	119.26	122.18	119.38	−0.4	4.97	136.72	117.92	119.43	122.82	119.86	151.20	121.73	148.12
Canada (117)	136.94	+0.0	116.91	118.93	121.84	113.88	−0.1	3.52	136.91	118.08	119.59	122.99	113.96	141.10	126.48	135.36
Denmark (31)	241.77	+1.7	206.42	209.99	215.13	215.14	+0.7	1.56	237.62	204.94	207.58	213.47	213.62	270.56	217.74	257.18
Finland (21)	113.54	−0.4	96.93	98.81	101.03	95.99	+0.3	2.53	114.03	98.34	99.62	102.44	95.70	125.15	90.81	138.94
France (111)	137.70	+1.0	117.57	119.59	122.52	125.45	+0.0	3.40	136.36	117.61	119.11	122.49	125.40	152.26	121.85	166.52
Germany (68)	110.74	+1.5	94.55	96.20	98.54	98.54	+0.5	2.26	109.15	94.14	95.37	98.06	98.06	125.35	102.43	128.26
Hong Kong (47)	158.28	−2.2	135.13	137.47	140.84	158.31	−2.2	4.32	161.77	139.52	141.31	145.33	161.80	161.77	119.62	123.37
Ireland (17)	153.20	+1.0	130.80	133.06	136.32	138.02	+0.1	4.07	151.71	130.84	132.53	136.29	137.91	182.46	132.88	182.21
Italy (91)	76.04	+0.2	64.92	66.04	67.65	72.18	−0.7	3.28	75.89	65.45	66.29	68.18	72.67	88.23	72.05	106.43
Japan (452)	137.36	+0.5	117.27	118.30	122.24	118.30	−0.1	0.72	136.88	117.98	118.40	122.81	118.40	146.97	118.35	152.79
Malaysia (33)	228.31	+0.3	194.93	198.28	203.14	242.77	+0.2	3.12	227.54	196.24	198.78	204.41	242.26	247.78	192.63	230.48
Mexico (12)	994.18	+1.3	848.82	863.49	884.64	3252.31	+1.3	0.39	981.07	846.14	857.05	881.38	3209.36	995.27	534.45	504.10
Netherland (40)	139.08	+2.8	118.75	120.80	123.76	122.36	+1.6	4.43	135.62	116.97	118.47	121.84	120.49	145.73	125.70	141.49
New Zealand (14)	53.46	+1.5	45.64	46.43	47.57	48.28	+1.5	7.28	52.66	45.42	46.01	47.31	47.57	64.64	41.16	62.63
Norway (30)	203.08	+0.6	173.38	176.39	180.70	183.78	−0.1	1.64	201.86	174.10	176.35	181.35	183.98	223.24	162.24	243.74
Singapore (25)	202.78	−0.2	173.13	176.12	180.43	165.49	−0.2	2.02	203.10	175.17	177.43	182.46	165.90	208.25	151.63	207.14
South Africa (60)	213.88	+2.4	182.61	185.76	190.31	153.53	+1.7	3.68	208.92	180.19	182.50	187.68	150.95	213.88	178.00	190.77
Spain (41)	162.48	+1.1	138.72	141.12	144.58	130.42	−0.3	4.34	160.78	138.62	140.41	144.39	130.77	171.12	131.51	160.78
Sweden (27)	184.27	+4.5	157.33	160.05	163.97	167.70	+3.4	2.61	176.32	152.07	154.03	158.40	162.22	204.12	146.60	202.14
Switzerland (66)	94.14	+1.8	80.37	81.77	83.78	84.51	+0.9	2.31	92.62	79.88	80.92	83.22	83.72	100.67	82.17	100.73
United Kingdom (293)	172.78	+1.6	147.51	150.05	153.72	147.51	+0.6	4.87	170.07	146.68	148.55	152.77	146.68	187.44	156.27	157.82
USA (523)	151.97	+0.8	129.75	131.99	135.23	151.97	+0.8	3.23	150.74	130.01	131.69	135.43	150.74	158.24	125.85	144.85
Europe (935)	139.43	+1.4	119.05	121.10	124.08	121.75	+0.5	3.89	137.46	118.55	120.08	123.49	121.16	151.52	125.50	145.74
Nordic (109)	181.43	+2.7	154.90	157.58	161.44	157.06	+1.7	2.06	176.70	152.40	154.37	158.75	154.41	200.81	155.55	200.78
Pacific Basin (643)	138.00	+0.4	117.82	119.86	122.79	120.38	−0.1	1.05	137.47	118.57	120.10	123.50	120.53	145.92	117.86	150.96
Euro – Pacific (1578)	138.93	+0.8	118.62	120.66	123.81	121.81	+0.1	2.23	137.80	118.85	120.37	123.78	121.67	147.66	121.29	149.24
North America (640)	150.96	+0.8	128.88	131.12	134.34	149.40	+0.8	3.24	149.81	129.20	130.88	134.61	148.27	157.04	125.91	144.18
Europe Ex. UK (642)	119.17	+1.3	101.75	103.53	106.07	106.68	+0.4	3.13	117.62	101.44	102.77	105.69	106.24	129.80	106.85	136.71
Pacific Ex. Japan (181)	144.46	−0.8	123.34	125.49	128.56	129.08	−0.8	4.71	145.66	125.63	127.27	130.87	129.80	145.66	111.40	128.49
World Ex. US (1767)	140.11	+0.8	119.62	121.70	124.67	122.58	+0.1	2.28	138.97	119.86	121.41	124.85	122.40	148.16	122.32	149.38
World Ex. UK (1997)	140.16	+0.7	118.68	121.74	124.73	130.11	+0.4	2.36	139.18	120.02	121.57	125.03	129.64	145.77	120.06	145.55
World Ex. So. Af. (2230)	142.62	+0.8	121.78	123.88	126.91	131.66	+0.4	2.61	141.48	122.03	123.61	127.12	131.18	148.66	122.92	146.37
World Ex. Japan (1838)	147.42	+1.0	125.86	128.05	131.18	138.48	+0.6	3.54	146.00	125.92	127.56	131.16	137.83	152.83	126.69	144.90
The World Index (2290)	143.05	+0.8	122.13	124.25	127.29	131.83	+0.4	2.82	141.89	122.38	123.96	127.48	131.32	149.01	123.28	146.64

Latest prices were unavailable for this edition.